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MEMORANDUM

FOR THE

SECRETARY OF WAR

ON

CURRENCY AND EXCHANGE IN THE PHILIPPINES

PREPARED IN THE

DIVISION OF CUSTOMS AND INSULAR AFFAIRS.

CLARENCE R. EDWARDS,

Lieut. Col. 47th Infantry, U. S. V.,

ACTING ASSISTANT ADJUTANT-GENERAL.

WITH COMMENTS AND SUGGESTIONS BY

A. E. BATES,

PAYMASTER-GENERAL UNITED STATES ARMY.

WASHINGTON:

GOVERNMENT PRINTING OFFICE.

1900.

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President:

Under date July 12, 1898, the President issued a circular establishing regulations for customs affairs in the Philippines 1

Secretary of War:

Under date of July 13, 1898, promulgates the President's order of July 12..... 1

Under date of October 13, 1898, issues an order reestablishing Spanish tariff in the Philippines........ 2

Forwards letter of James Stillman, president National City Bank of New York, with indorsements by Paymaster-General and Quartermaster-General to the military governor of the Philippines "for an expression of views and suggestions"........ 5

July 29, forwarded to the Secretary of the Treasury letter of Mr. James Stillman of New York, with its several indorsements........ 14

Referred the communication from the Secretary of the Treasury inclosing a letter from the director of posts and the clipping from the Manila Times back to the Secretary of the Treasury to consider in connection with the letter from Mr. Stillman of New York........ 16

Referred to the Secretary of the Treasury letter from the military governor in the Philippines inclosing letter from the treasurer of public funds relating to the order of the War Department providing "that the accounts of the treasurer shall be kept in the money of the United States at the true valuation". 18

Refers letter from the Secretary of the Treasury dated October 30, 1899, to the Paymaster-General and Quartermaster-General for remark........ 19

Under date of April 10, 1899, the War Department issued "General Orders, No. 65," providing, among other things, "that the money accounts of disbursing officers, United States Army, shall be rendered in terms of dollars and cents," and attaches thereto samples of how reduction can be made; requires accounts to be stated in the currency in which indebtedness is incurred and reduced to its equivalent in gold currency; that exchanges shall be made at the time funds are required for local payments, and that vouchers shall show the debt "as actually incurred in the coin in which payment is made, and the reduction from this coin to United States currency"........ 20

Referred to the Secretary of the Treasury the letter from the Secretary of State of April 27, together with its inclosures from the consul's report, and a recommendation that article 15 of the Cuban and of the Porto Rican tariffs be changed so that "the date of the invoice" should be used instead of "the date of the consular certificate," as indicating the value of invoices of imported goods for customs duties........ 23

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Under date of May 3, 1899, Tariff Circular No. 62 was issued by the War Department, changing article 15 of the Cuban and of the Porto Rican tariffs, providing: "The date of the invoice of goods will indicate the value of the currency in fixing values on imported goods for customs duties." There was no similar article in the Philippine tariff. Circular 62 also recommended that article 17 of the Regulations of Cuba and of Porto Rico and article 8 of the Philippine tariff be amended by omitting the necessity of verification of invoices. Article 17 of the Cuban and of the Porto Rican tariff and article 8 of the Philippine all read alike 24

Immediately after the issuance of Tariff Circular 62 a cablegram was sent to the collectors at Habana, San Juan, and Manila, briefly quoting the changes made, indicating that it was intended that the changes should apply at all three ports 25

Under date June 8, 1899, forwards to the Secretary of the Treasury a letter from the chief surgeon in the Philippine Islands "relative to the value of United States money and Mexican silver in the Philippines," and adds that, as no ratio has been established, "the rates of exchange should be established by publication in orders," and submits the whole question to the Secretary for his views 26

On receipt of letter of A. M. Townsend, forwarded by Secretary of the Treasury, suggesting a remedy for financial complications in the Philippines, and tendering service of the Hongkong and Shanghai Banking Corporation to conduct a general exchange business for the United States, using drafts upon the subtreasuries of New York, San Francisco, and Washington, referred the same to the Quartermaster-General and Paymaster-General for reports upon the letter, and the suggestions of the Secretary of the Treasury indorsed thereon 32

Replying to letter of A. M. Townsend, agent for the Hongkong and Shanghai Banking Corporation, forwarded to him by the Secretary of the Treasury, suggesting plans for simplifying and economizing the transfer of funds to the Philippine Islands, says: "Information is desired as to whether or not your bank will keep on hand and be prepared to furnish for this Department, from month to month, the money that will be needed for this Department, amounting to somewhere in the neighborhood of $800,000 or $900,000, and be willing to do this at all times, without regard to the cost of exchange ... 33

On September 13 the Secretary of War received an answer to his letter to A. M. Townsend, agent of the Hongkong and Shanghai Banking Corporation, stating that his bank will keep on hand all money required, but will expect to charge current rates of exchange on New York, San Francisco, or London, as drafts might be desired. On the following day, September 14, 1899, Mr. Townsend telegraphed the Secretary of War that his telegram contemplated Mexican currency, and that he would write concerning the placing of gold at their disposal, and on the same day Mr. Townsend wrote the Secretary of War, stating that if gold was placed at their disposal they would expect to charge regular rates thereon. The papers were then forwarded to the Secretary of the Treasury 33

Received letter from military governor of Philippines, forwarding letter from Auditor Albert Todd, dated Oct. 23, 1899, referring to a conversion of Mexican currency into gold, and stating that at present there are four different rates in force (quartermaster's rate, \$0.474; subsistence department rate, \$0.481; custom-house rate, \$0.50, and bank rate, \$0.485); that under the quartermaster's and subsistence department rates the Government is a loser, and a gainer under the customs department rate, as the bank rate is the basis of commercial transactions, and recommends that the bank rate be adopted for

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all conversions of currency where public funds are involved. As auditor, he finds difficulty in the examination of accounts arising from these variations. This communication was referred to the Quartermaster-General, Paymaster-General, and Commissary-General of Subsistence for remark 37

On January 2 referred to the Secretary of the Treasury the letter of Auditor Todd, of the Philippines, together with its several indorsements 38

January 27, 1900, replied to the military governor of the Philippines in the matter of the communication of Captain Todd, auditor, communicating to him the exact language of the letter of the Secretary of the Treasury, dated January 15, 1900, to wit: "It is regarded by this Department as a very doubtful experiment to undertake to avoid the bank rates at Manila," and adds that the War Department concurs in the views expressed by the Treasury Department 38

March 3, 1900, the Secretary of War by cable inquired of the military governor in the Philippines if it would be practicable to collect customs duties in United States currency, and on the 8th received a reply that it could be done if Mexican dollars are given a fixed value 39

Received from the Inspector-General, statement of the examination of account of Major Knight, quartermaster in the Philippines, showing an apparent discrepancy of $202.76 in one case, and $1,458.83 in another, arising from variations in the value of Mexican coin, the same standing to the debit of the quartermaster, and referred the matter to the Quartermaster-General for report 39

Received from the Quartermaster-General, August 21, 1900, an explanation of the account of Maj. John T. Knight, quartermaster at Manila, showing the following facts: "At midnight, on December 31, 1899, he had on hand $20,275.50 Mexican, which sum at 0.474 gold amounted to $9,610.59. One minute after midnight this identical silver, by order from Washington, was worth only 0.464, or $9,407.83 gold, or a depreciation of $202.76. The rate did not change in Manila, and he could have purchased just as much with the money on January 1 as on December 31; that in February he had to purchase $43,532.70 at 0.4975 cents, but pursuant to orders he had to expend it at 0.464, making a difference of $1,458.88; not a real loss, as the Government received quid pro quo for all of it, and states further that the buying rate never has been as low in Manila in his experience as the rate fixed at Washington" 41

Received through the Chief of Ordnance a letter dated July 23, 1900, at Manila, from Lieutenant Fuller, ordnance officer, stating that he wished authority to purchase in Hongkong or elsewhere Mexican silver, for his business relations, stating that all transactions in the Philippines are in Mexican silver, showing loss by Government officers in handling Mexican funds, and states that the Government will reap a great profit if his plan may be carried out 43

Received a dispatch from General MacArthur, dated Aug. 3. 1900, stating that quartermaster's rate (Treasury Circular rate) is $2.10 Mexican, and that bank rate of that day was $1.98 Mexican, that a feverish condition of the money market prevailed, and that as a temporary measure he had ordered the reception of United States currency for customs and dues at the rate of two for one; suggests establishment of United States Treasury system, and adds that banks hold 5,500,000 Mexican dollars of United States money and are using that to bear the market. The same was on August 6 referred to the Secretary of the Treasury with the remark that the quartermaster's rate is that fixed by the Director of the Mint, and asks the views of the Treasury Department upon the situation 45

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August 11 the Secretary of War cabled the military governor of the Philippines the substance of a letter received from the Secretary of the Treasury, dated August 10, 1900, commenting upon the telegram received by the Secretary of War August 3, 1900 47

August 20, 1900, Mr. Alexander Laird, agent of the Canadian Bank of Commerce, New York City, addressed the Secretary of War with reference to the matter of currency in the Philippines, and inclosed an extract from a local paper stating that the Government was about to take measures to guard itself against the action of banks in Manila, and made several suggestions with reference to the currency question. This communication was, on the 23d of August, referred to the Secretary of the Treasury. The recommendation of Mr. Laird was, as a cure for the existing trouble, expressed as follows: "The only remedy for this state of things is to introduce more currency in the Philippines," and we would suggest that if the American Government have any objection, to coin for use in Manila a dollar of the same weight and fineness as the Mexican dollar to circulate with that dollar and the Filipino dollar on equal terms as local currency 48

September 22, 1900, the Philippine Commission cabled the Secretary of War to the effect that American dollars in Mexican were depreciated, condition becoming difficult, causing loss to Government, making extortionate profit possible, early action necessary; suggest as war measure establishment of gold American dollar of standard value; reminting of all silver Mexicans in local mint into token United States-Filipino peso, resembling in size and appearance present Mexican coin, profits on recoinage sufficient to repair mint; request submission to Secretary of Treasury; estimates silver currency in island at $34,000,000. This matter was, on September 24, referred to the Secretary of the Treasury. On September 25, 1900, the Philippine Commission again cabled the Secretary of War, suggesting the ratio of a Mexican to an American dollar be fixed at 1 to 2, and on September 25 the military governor was cabled by the War Department that the Secretary of War approved ratio of 2 to 1 for quarter beginning October 1, and that military governor be authorized to fix ratios for subsequent quarters 50

Secretary of State:

Under date of April 27, 1899, forwarded to the Secretary of War information regarding "Consular reports in the Philippines," and inclosed copies of extract from the reports, showing that in old times gold money was used in the Philippines to the extent that silver was at 10 per cent premium, and as late as 1883 1½ per cent premium was paid for it. In 1887, by decree, Mexican dollars could not be imported into the Philippines under penalty; states that the exports of the Philippines have always been greater than the imports, and that the tendency of exchange was to rise; in 1897 the Spanish Government minted Philippine dollars in Spain, containing 10 per cent less silver than the Mexican dollar, and sent several millions to the Philippines, and the public was compelled to take these dollars at full value, and he believes these light dollars are still in the country; suggests "if the country would get its own silver dollar, and the United States would make it a rule that two Philippine dollars are worth one American gold dollar, we would in fact have a gold basis without a dear gold dollar." He also suggests that article 15 of the Cuban and Porto Rican tariffs be changed so that the date of the invoice will indicate the value of the currency at which foreign goods imported shall be appraised for the purposes of customs duties. The law at that time provided that the date of the consular certificate should indicate the value 22

Secretary of the Treasury: Page.

Forwards letter to the Secretary of War from Mr. James Stillman, president of the National City Bank, New York City, proposing a remedy for a "confused and unnecessarily expensive financial system in the Philippines" 4

Forwards to the Secretary of War a communication from the Postmaster-General inclosing a copy of a letter of F. W. Vaille, director of posts in the Philippines, "relating to the confusion and complication of the currency under the conditions which now prevail at Manila," accompanied by an article from the Manila Times referring to that same subject. The above letter was forwarded to the Secretary of War by the Secretary of the Treasury. 14

Under date of October 30, 1899, returns letters from Mr. Stillman, of New York, and of the director of posts in the Philippines, extract from the Manila Times, and letter from treasurer of public funds, with all their several indorsements, and replies thereto in substance as follows: "It would seem advisable at present to continue to receive accounts of moneys for duties, taxes, etc., in the Philippines, and keep account in the currency of the country, the Mexican standard." As to the credits authorized for disbursing officers, "they are credits in gold or its equivalent, and should be accounted for as such." Even if the exchange to Mexican dollars works a hardship, "it is not seen how the Treasury Department could change the situation;" and suggests that if it is necessary to convert money and there should be a loss or a profit, it "can be accounted for and fully explained upon their books and accounts." "It is regarded by this Department as a very doubtful experiment to undertake to avoid the bank rates in Manila by independent purchases of Mexicans from Hongkong or elsewhere, and one not to be recommended;" and concludes by adding that if transactions in Mexican money become necessary, it can be done by the disbursing officers, through the banks, by conversion of checks drawn on the United States, "the disbursing officer taking credit for whatever loss may be incurred in the transaction 18

Replies to the letter from the Secretary of War inclosing letter from the Secretary of State, with reference to the change of article 15 in the Cuban and in the Porto Rican tariffs, and suggests that he "is unable to perceive any necessity for the requirement of consular certificates or other authentication of invoices," and recommends that the change be made. In quoting the substance of the change he also proposes to amend article 8 of the Philippine tariff, which is not similar to article 15 of the Cuban or of the Porto Rican tariff, but is similar to article 17 of those tariffs, which article 17 he also recommends be amended. All the amendments appear necessary to carry out the proposed changes recommended 23

Receives letter from the Secretary of War dated June 8, 1899, referring to the shortage in the account of the chief surgeon in the Philippines by reason of variation in the value of Mexican coin, and refers the same to the Director of the Mint "for recommendation and return" 28

Under date of June 27, 1899, replied to the Secretary of War in the matter of the chief surgeon at Manila (Woodhull), stating, among other things, the following: "It would be impracticable to establish a fixed par of exchange between United States money and the Mexican dollar, which constitutes the medium of exchange at Manila, in view of the unlimited supply of Mexican dollars;" and then adds that the confusion of accounts complained of will be obviated if disbursing officers "shall keep their credits in money of the United States and be governed strictly by the provisions of General Orders, No. 65, of April 10 last, in their disbursements" 30

November 30, 1898, received report from Edward W. Harden, special commissioner, sent to the Philippine Islands to investigate the "financial and

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industrial conditions," wherein he (Harden) recommended the mintage of a special Filipino dollar, similar in size and appearance to the Mexican dollar 52

Under date of August 28, 1899, forwards to the Secretary of War a letter from A. M. Townsend, agent for the Hongkong and Shanghai Banking Corporation, wherein Mr. Townsend says that he is anxious to be of service in simplifying and economizing the financial business in the Philippines, notes the several customs in vogue, and suggests remedies whereby his bank may be of service to the United States Departments generally. Recommends a general system of use of drafts on New York, San Francisco, and Washington treasuries as a remedy, and agrees that his bank will honor such drafts in consideration of advantages to be derived by them in using such drafts as exchange, the Secretary of the Treasury adding that the suggestion of Mr. Townsend is "safe and desirable to the extent practicable" 31

January 15, 1900, the Secretary of the Treasury replies to the Secretary of War, commenting upon the letter of Auditor Todd, of the Philippines, referring to a conversion of Mexican currency into gold, and stating that at present there are four different rates in force—quartermaster's rate, $0.474; subsistence-department rate, $0.481; custom-house rate, $0.50, and bank rate, $0.485; that under the quartermaster's rate and the subsistence-department rate the Government is a loser, and a gainer under the customs department rate, as the bank rate is the basis of commercial transactions, and recommends that the bank rate be adopted for all conversions of currency where public funds are involved; as auditor, he finds difficulty in the examination of accounts arising from this variation, together with the remarks of the several officers to whom it had been referred; and briefly replies by referring to their letter of October 30, 1899, wherein it is stated that it is regarded by that Department as a very doubtful experiment to undertake to avoid the bank rates in Manila, etc 38

Under date of August 10, replies to letter of Secretary of War, and adds: "I am first struck with the thought that the quartermaster's rate of exchange is itself arbitrary and unnatural and one that would be difficult in maintaining, at least upon the present principle." States basis of fixing rate by Director of the Mint, and shows that the same was not intended to apply to current transactions. Does not see his way clear to make recommendation which will solve the problem, except "to introduce a new supply of Mexicans from some quarter of the globe, if there be such a place, where they can be purchased cheaper than in Manila;" also suggests that possibly arrangements can be made whereby banks would deal with the Government at a small profit of, say, one-half of 1 per cent; that a profit of $2\frac{1}{2}$ to 4 per cent "is hardly to be endured." If this can be arranged, the arbitrary rate must be abandoned, and, if not, another effectual remedy is "A stern grip of taxation might be put upon them in some form, in such manner as to show that they were not absolutely masters of the situation" 46

August 25, the Secretary of the Treasury, replying to the Secretary of War in the matter of the communication of Mr. Alexander Laird, agent of the Canadian Bank of Commerce, New York, remarks: "The suggestion of Mr. Laird that an American dollar can be coined and introduced into the Philippines is, I think, worthy of most careful consideration. It is reasonable to believe that a special dollar, quite distinct from our present coinage, to possess the same weight and fineness as the Mexican dollar, not to be legal tender in the United States, might be successfully introduced into the Orient 50

Director of the Mint: Page.

Considers letter referred to him by the Secretary of the Treasury, forwarded by the Secretary of War, inclosing letter from the chief surgeon in the Philippine Islands, and comments as follows: "It would be impracticable to undertake to establish a fixed par of exchange between gold and Mexican dollars, which constitute the medium of exchange at Manila, for the reason that there is no limit to the supply of Mexican dollars," and recommends that disbursing officers convert the funds into Mexican money as they have payments to make and if when reconverted, the rate shall not be the same, that it be "adjusted by charging the difference to exchange or as may be directed." States that the so-called "Navy rate" is but an adaptation of the Treasury rate, fixed quarterly by his circular, and adds that the Navy Department "debit or credit the exchange," and remarks that it would not be advantageous to carry balance in foreign money, but to procure only such as may be needed for immediate payment 28

Auditor for the War Department:

In considering letter from chief surgeon in the Philippines (Woodhull), first suggested as a reply to the Secretary of the Treasury, who submitted the matter to him for his views, that in his opinion "a ratio between the United States money and the money current in the Philippine Islands should be established for the guidance of disbursing officers in those islands. The fact that such ratio has not been established has led to some confusion in accounts rendered to this office." The indorsement finally adopted, however, was as follows: After referring to General Orders, No. 65, he says: "If disbursing officers in the Philippines will keep all their credits in United States money and be governed strictly by the provisions of General Orders, No. 65, in their disbursements, I see no reason why results can not be satisfactory to this office" 29

Postmaster-General.

Forwards to the Secretary of the Treasury copy of a letter from Mr. F W. Vaille, director of posts in the Philippines, "relating to the confusion and complication of the currency under conditions which now prevail at Manila," accompanied by an article from the Manila Times, referring to that same subject. The above letter was forwarded to the Secretary of War by the Secretary of the Treasury 14

Military governor:

On page 23 of his annual report cites order postponing operation of tariff until November 10, 1898 2

Appoints Capt. J. F. Evans to revise customs laws 3

Received letter from Mr. James Stillman, president National City Bank of New York, from Secretary of War, and refers it to the chief quartermaster, the chief paymaster, and the treasurer of public civil funds 6

June 3, 1899, returns letter written by Mr. James Stillman, president National City Bank of New York, with sundry indorsements, and expresses his views thereon, stating that nearly all the transactions in the islands are based on Mexican silver money as the standard; that all public revenues are received in that currency and all contracts made upon that basis; that the real sufferers are the employees of the army, soldiers, and others who receive their monthly pay in gold coin, as the expenditures in the island must be in Mexican. Approves suggestion of chief paymaster that Government purchase moderate amount of Mexican dollars. States that a gold deposit in a bank means a silver credit in Mexican money. The fluctuating value of Mexican silver due to past action of Spanish Government in not controlling importation of silver earlier 6

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Under date of August 21, 1899, forwards to the Secretary of War a letter from the treasurer of public funds in the Philippines upon the currency question, upon which he indorsed the following: He "opposes the ntroduction of the gold standard as a monetary basis for treasury transaction in the Philippines; states that all revenues are payable in the currency of the country, and that an attempt to make them payable in gold would result in financial disturbance, with widespread indignation and resistance;" that an attempt to collect duties on the gold basis would result in confusion as to the amount, since that would vary daily, dependent upon the price of silver. To direct the treasurer to receive payment in the currency of the country and convert it into gold "would be attended with all the disadvantages and expenditures explained by the treasurer." Under present system, all accounts and balances being kept in the currency of the country, fluctuations in silver exert no influence 17

Under date of August 31, 1899, General Otis, as military governor, presented his annual report, discussing the currency question in substance as follows: The present currency of the island consists of 6,000,000 of Filipino dollars, 10,000,000 of subsidiary coins, 10,000,000 of Mexican dollars, and $1,500,000 of bank notes of the Banco Español-Filipino. The former standard was gold, but it has succumbed to the cheaper silver currency. The bank above referred to is the only bank that has power to issue paper money to the extent of three times its capital stock of $1,500,000, and its paper dollar ranks as the Mexican silver dollar. "The currency of the country fluctuates daily, according to the price of silver in the great money markets of the world, and has no stable value. The merchant who buys gold in Manila must pay not only the rate of exchange, but the estimated cost of transporting the metal, and if he wishes to convert gold into silver he must pay high exchange rates and the cost of shipment of the Mexican dollar. The officers and enlisted men of the Army who are paid in gold have been the principal sufferers." 35

Under date of September 27, 1899, general orders were issued forbidding the exportation of Spanish copper coinage from the Philippines, and a heavy penalty imposed for so doing 36

Forwards to the Adjutant-General of the Army a communication from Albert Todd, auditor for the Philippines, dated October 23, 1899, referring to a conversion of Mexican currency into gold, and states that at present there are four different rates in force, quartermaster's rate, $0.474; subsistence department rate, $0.481; custom-house rate, $0.50, and bank rate, $0.485; that under the quartermaster's and subsistence department rates the Government is a loser, and a gainer under the customs department rate, as the bank rate is the basis of commercial transactions; and recommends that the bank rate be adopted for all conversions of currency where public funds are involved. As auditor he finds difficulty in the examination of accounts arising from these variations 36

Under date of December 23, 1899, new orders were issued prescribing "Regulations for keeping and rendering accounts in the Philippines," and provides, among other things, that the same should be kept on forms which shall comply "substantially with those used by officers rendering accounts to the Treasury Department," and adds, "for the present all money accounts would be kept in Mexican currency" 38

Under date of May 24, 1900, the military governor ordered the enlistment of four troups of native scouts to "serve the United States of America" in the Philippines, and fixes their pay and allowance in Mexican coin 40

June 21, 1900, Circular No. 8, for the direction of medical officers, provides that each voucher shall show the amount of indebtedness in currency in which it

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is incurred, and also the currency in which it is paid 42

June 27, 1900, by General Orders, No. 38, a similar order was issued for the conduct of the business of the Subsistence Department 43

Paymaster-General:

Commenting on letter of Mr. Stillman, of the National City Bank of New York, suggests that American money should be paid "to Americans in any part of the world" 5

The Secretary of War referred the letter from the Secretary of the Treasury, dated October 30, 1899, to the Paymaster-General and Quartermaster-General, for remarks. The Paymaster-General replied, under date of November 22, 1899, as follows: He agrees with the Secretary of the Treasury that it would be a mistake to attempt any change in the method of accounting; that the business of the department is conducted without friction, and all upon the basis of American gold currency; that in the month of September, 1899, they had shipped to the Philippines nearly $8,000,000, of which about 33 per cent had come back into the hands of the United States officers in providing for remittances to this country; that checks on the assistant treasurers at New York and San Francisco are in demand by merchants in Manila, and he assumed authority to use them in exchange, after consulting with the Secretary of the Treasury. Since that time they have received from the banks of Manila $635,000 American currency, for which they gave credit in New York. Sees no special difficulty with officers and soldiers in converting American currency into Mexican; believes custom of exchange on New York will increase, and is not disposed to recommend the purchase of Mexican dollars to be sent to chief paymaster in the Philippines, and advises "to leave the problem to solve itself" 19

In commenting upon the letter forwarded to him, written by Mr. Townsend to the Secretary of the Treasury, and indorsed by the Secretary of War, he says he has already sent to Manila $7,105,800 in currency of the United States, and that $1,551,000 more leaves about the 15th of September, 1899, and remarks that if that money can be kept on the island it will go far toward supplying all the money necessary for the current business of the United States; and adds that if the Hongkong and Shanghai Bank will keep on hand a sum sufficient to supply that department, amounting to between $800,000 and $900,000 per month, the Government would be saved the expense of transmittal, and remarks that the bank would probably be willing to do this as soon as exchange is in their favor; but desires to know what would be done if conditions change, and so would not like to be held responsible for the approval of any plan which could lead to a failure in payment of troops 32

Replying to the Secretary of War, when requested to comment on the letter of Auditor Todd, states that all accounts of the pay department in the Philippines are conducted on the basis of American coin; that they make no conversions into Mexican coin, and have nothing to do with the Mexican dollar, and "it is not considered desirable that we should have" 37

Makes general comments and suggestions reviewing work 60

Quartermaster-General:

Commenting on the letter of Mr. James Stillman, president of the National City Bank of New York, declined to express any opinion upon the subject, and recommended that it be referred to the commanding general in the Philippines 5

Commenting on the letter of the Secretary of the Treasury, dated October 30, 1899, states that funds needed by the chief quartermaster in the Philippines have been placed to his credit in subtreasuries in New York and San Francisco; and no complaint having been received, it is believed that method is

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working satisfactorily ... 20
On reviewing letter of A. M. Townsend, of the Hongkong and Shanghai Banking Corporation, forwarded to him through the Secretary of the Treasury and Secretary of War, suggests that what is known as the letter-of-credit system is most popular in his Department, and adds that if the exchange plan proposed by Mr. Townsend can be carried out it would be most desirable ... 32
In considering the letter of Auditor Todd, of the Philippines, referred to him by the Secretary of War, wherein Mr. Todd quotes the several rates of exchange of Mexican currency, has to say that the chief quartermaster at Manila is furnished by the rate estimated by the Director of the Mint and proclaimed by the Secretary of the Treasury, "which, it is understood, were the proper rates for converting Mexican dollars into United States money," and it is thought that the Navy uses the same rates; and recommends that all disbursing officers in the Philippines be instructed to use the same basis, and adds that, independent of Treasury estimates of coin values, the bank rate, varying according to conditions, will doubtless continue to be the basis for commercial transactions ... 37
On August 21, 1900, the Quartermaster-General reported to the Secretary of War that upon investigation of the affairs of Major Knight, quartermaster in the Philippines, it was ascertained that the discrepancy arose by reason of the account covering a term in which two different circulars of the Treasury Department were issued, and states the following fact in relation to one item of the account: "At midnight on December 31, 1899, he had on hand $20,275.50, Mexican, which sum at 0.474 gold amounted to $9,610.59. One minute after midnight this identical silver, by order from Washington, was worth only 0.464 or $9,407.83, gold, or a depreciation of $202.76. The rate did not change in Manila, and could have purchased just as much with the money on January 1 as on December 31; that in February he had to purchase $43,532.70 at 0.4975 cent, but pursuant to orders he had to expend it at 0.464, making a difference of $1,458.88; not a real loss, as the Government received a quid pro quo for all of it;" and states further that the buying rate never has been as low in Manila in his experience as the rate fixed at Washington ... 40

Inspector-General:

May 11, 1900, the Inspector-General, in examining the accounts of Maj. John T. Knight, quartermaster in the Philippines, discovered an apparent discrepancy of $202.76 in one case, and $1,458.83 in another, the same standing to the debit of the quartermaster ... 39
Reports upon the inspection of the account of Maj. C. A. Devol, quartermaster in the Philippines, wherein he claimed a loss of $2,939.01, under conditions similar to those shown in the examination of the account of Major Knight, quartermaster, and, on April 19, 1900, a similar condition of affairs was found in the accounts of Maj. Guy M. Howard, quartermaster, who claimed a credit of $771.63, deficit arising under the same conditions. The several accounts of Knight, Devol, and Howard have been adjusted under the provisions of General Orders, No. 65 ... 41
Under date of July 31, 1900, the Inspector-General reported upon the forms of the auditor's office in the Philippines, and stated that up to July 25 accounts were kept by the established standard rate (presumably Treasury circular rate); that since that date the accounts have been kept in current Mexican rates. He accompanies his report with reference to law showing that it is the duty of the treasurer to keep his account in United States money, and if any foreign coin or currency is used, the same must be reduced to United States basis ... 44

Treasurer of public funds in the Philippines:

In commenting on the letter of Mr. James Stillman, of the National City Bank of New York, suggests that rates of exchange in Manila are obtained by wire from New York and London, and are based upon rates prevailing in those cities, and hence can see no benefit to be derived from the proposition of Mr. Stillman. All transactions with his office are in Mexican and Philippine silver. He is not sufficiently familiar with the subject to express any opinion except to add that the establishment of a subtreasury or a United States depository would facilitate public business 13

Addressing military governor, August 19, 1899, refers to instructions providing "that the accounts of the treasurer shall be kept in the money of the United States at the true valuation, suggests that he supposes that means the rate issued quarterly by the Treasury Department, and adds that it would be impracticable; that if accounts are so kept it will, in fact, establish a gold standard, which would lead to losses by the Government and to citizens; that the rate established by the Treasury Department would not be accepted by the local banks; that the present rate at the banks is 2.01 Mexican, while the Treasury Department rate for the current quarter is 2.079 Mexican. States that the customs, internal revenue, and other dues, being based on Mexican silver, there would be an approximate loss of from 5 to 9 per cent if the instructions are followed. Suggests that an effort be made to require banks to receive gold deposits, and keep a sufficient supply of gold on hand to pay out gold checks; states that there is on hand at the present time $2,500,000 Mexican belonging to the public and seized funds. If compelled to convert these at this time into gold at the rate fixed by the Treasury Department circular, it would cause a loss of $125,000 Mexican, and recommends that the present silver standard be maintained, and the accounts kept as at present" 16

Chief quartermaster in the Philippines:

Commenting on the letter of Mr. James Stillman, of the National City Bank of New York, states that before leaving San Francisco he was notified that he would be furnished with letter of credit of $450,000 gold, and that he would be furnished, on his arrival at the Philippines, with 100,000 Mexican dollars. He received his letters of credit and 77,000 Mexican dollars, which were invoiced to him at 47¼ cents. On inquiry as to ratio of pounds sterling, he was referred to Revised Statutes, section 3565, and was told that there was no fixed rate for Mexican dollars. These were disposed of at the rate of 47¼ cents, as charged, and at the same time the Navy was using the Mexican dollar, based on a rate furnished by the Treasury, of 45.4 cents gold; and the Mexican dollar, gauged by the fixed value of the pound sterling at that time, was 48.7 cents. His letters of credit cost him 48.7 cents, as against charge of 47¼ cents. On his arrival at Cavite the American silver dollar was worth but $1.75 Mexican, and, at the date of writing, it was worth in Manila $1.96, whereas gold cost at the bank $2. Suggests that if Government would take up American silver dollars and pay gold for them it would place silver upon a par with gold. He shows that the loss to the Government on his letters of credit was 2.8 of 1 cent, gold, on each Mexican dollar, and suggests that that difference would pay expense of transportation and insurance in shipping silver into the country. Suggests that the banks selling exchange make one profit, and banks cashing exchange another, making extra cost to the Government for both. Recommends that Mexican dollars be purchased for current use in the Philippines at the rate stated in the Treasury Department quarterly, or at the rate Mexican dollars cost the Government delivered there; second, that sealed proposals be received from banks in the

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Philippines and in the United States for furnishing Mexican silver dollars, thus stimulating competition; third, that authority be given to keep all accounts in Mexican currency until United States currency becomes firmly established, and that no consideration be given to difficulties in making changes and keeping accounts, and suggests that all values must accommodate themselves to the new currency ... 10

Chief commissary in the Philippines:

Commenting on letter of Mr. James Stillman, of the National City Bank of New York, states that up to date, May 11, 1899, he has not experienced any difficulty with the currency question, as he has been able to use checks on San Francisco and New York, in addition to his accumulations of United States currency, to provide necessary funds for his department. From his standpoint he can not see how the Government would be benefited by carrying Mexican dollars for the transaction of local business ... 12

Director of posts in Philippines:

Under date of June 9, 1899, forwards to the Postmaster-General a communication wherein he states: "Our money is neither flesh nor fowl; neither gold standard nor silver standard," and incloses extract from Manila Times, which he says is the most substantial paper in the Philippines. He adds that the financial solution of this question will be the "outcome of hard study;" but he believes it to be possible for the Government to prevent "the present outrageous depreciation in our money by the Manila banks." Comments on the fact that although the United States is administering the affairs of the island, its money is not received for customs duties, or internal revenue taxes, and to that extent "we are discrediting our own money." States that at the post-office our money is taken at par, and Spanish currency at prevailing rate, "as fixed by the Navy, and not at the current bank rates." Recommends that while Spanish laws apply and the peso is the unit, United States coins should be received for duties, taxes, etc., at a rate fixed ... 14

By General Orders, No. 38, dated August 22, 1899, from the office of the military governor of the Philippine Islands, a new schedule of postal rates was issued. The postage is stated in cents, but there is no currency specified, and, among other things, it is noticed that the local island rate of mail service is just one-half the required rate in this country for same service, or 1 cent for each half ounce of first-class matter ... 30

Surgeon-General:

Forwards to the Secretary of War letter from chief surgeon at Manila (Woodhull), a communication showing that he (Woodhull) had received from his predecessor a certain amount of Mexican money which his predecessor had purchased with American gold; that in attempting to render an account for funds on hand a depreciation had occurred wherein his funds were not worth the amount receipted for by him, estimated upon a gold basis, the two values being established and maintained by the Auditor of the Treasury Department, under the Treasury circular, and he asks to be relieved from the deficiency, inasmuch as he did not convert it into silver, merely receipting for what funds came into his hands, and is prepared to account for all money received and expended by him ... 27

Commissary-General of Subsistence;

Replying to request of Secretary of War that he comment on letter of Auditor Todd of the Philippines, remarks that his Department is governed entirely by the provisions of General Orders, No. 65, and makes no other recommendations in the matter ... 37

Chief paymaster of the Philippines: Page.

Commenting on letter of Mr. Stillman, president National City Bank of New York, states soldiers are paid in United States coin; that the same has been received at a rate fluctuating from $2 to $2.08 in Mexican or Filipino coin; that confidence in the United States money makes our silver dollar pass as worth double that of any other country, although it only contains 412½ grains as compared with 416 grains in a silver dollar, Mexican. Says there are about 200,000 American dollars in circulation there; that $4,700,000 have been shipped to the Philippines by the Pay Department on transports carrying troops, at no extra charge. Says no complaints have been made by officers or men on being paid in American coin. Believes there would be great complaint if paid in Mexican or Filipino silver. Refers to United States statute, section 3584, and quotes, "No foreign gold or silver shall be legal tender in payment of debts," and claims that thereunder payment in Mexican coin would be unlawful. Refers to fixed value of Navy Department controlled by United States Treasury Circular, and claims that there is no provision of law whereby the paymaster could be relieved of any difference in value. Assists soldiers in remitting to America by issuing checks on assistant treasurers of New York and San Francisco. States that nearly one-third of the total amount paid out by him in payment of troops comes back into his hands again in that way. States that when an officer or enlisted man makes a gold deposit at a bank he receives a credit in silver at the current rate. As remedy recommends that Pay Department ship to him half a million of Mexican dollars and permit them to be paid out at cost to the United States. Recommends that the military governor compel banks to receive and pay gold to depositors, and recommends that the Pay Department be authorized to receive American money from merchants and citizens generally, and give checks therefor on subtreasuries of New York and San Francisco, which course would have a tendency to retain American coin in the islands; that an American bank is about to be opened in Manila, and believes that it will make an enormous profit if properly conducted. States that any change from a silver basis in the islands at present would destroy their industries. Suggests that the mint at Manila can be used profitably in coining and recoining silver, but refers the general question "to wiser financiers" for consideration. Believes no advantage would accrue to the United States in adopting the plan suggested by Mr. Stillman, and does not recommend fixing value by any circular for current business 7

Laws:

While there is no express law fixing legal tender in the Philippines, we find article 489, on page 113 of the Code of Commerce, contains a section providing that bills of exchange must be paid in the money designated, or in its equivalent in local currency 1

Article 15 of the tariffs of Cuba and Porto Rico, changed by War Department Tariff Circular No. 62, refers to the basis of foreign coins proclaimed by the Secretary of the Treasury on the first days of January, April, July, and October of each year. Several of the officers refer to a standard of fixed values of foreign coin under several heads. Some call it "The Treasury Department circular;" others, "The Government established rate;" "The rate established by the Navy;" "The quartermaster's rate." Upon investigation it is ascertained that they all refer to a quarterly circular issued by the Director of the Mint and proclaimed by the Secretary of the Treasury on the first days of January, April, July, and October in each year. This circular fixes the value of standard coins in circulation of the various nations of the world, and its use is defined by law to be for the purpose of "estimating the

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value of all foreign merchandise exported to the United States during the quarter of which the value is proclaimed." It is found in section 25 of the act of August 28, 1894 25

At the last session of Congress an act was approved June 6, 1900, providing for the establishment of depositories of public funds in the Philippines, and authorized the Secretary of the Treasury to contract with banks or bankers to become such depositories, provided that such banks or bankers should secure such deposits "by depositing in the Treasury of the United States bonds to an amount not less than the aggregate sum at any time on deposit with such bank or bankers." Upon investigation it was found that the War Department alone required at times as much as $5,000,000, and that the Navy Department was liable to have that same amount, showing the necessity for the deposit of at least $10,000,000 in United States bonds by such banker, the sum aggregating to such an amount. No applications have been made thereunder 42

Miscellaneous:

Silver peso the unit of value in the Philippines 3

Gold peso the unit of value in the Philippines 3

Tariff fixes rates in pesos and dollars indiscriminately 4

James Stillman, president National City Bank of New York, writes Secretary of the Treasury concerning "confused and unnecessarily expensive financial system in the Philippines" 4

The chief paymaster in the Philippines, in commenting on the letter of Mr. James Stillman, of New York, incloses extract from a communication from the manager of the Hongkong and Shanghai Banking Corporation, wherein the manager states: "Original currency in the island was gold, with small amount of Mexican and Spanish silver. Silver was subsequently at a premium over gold, which led to repeated exportation of Mexican dollars. In 1877 Spain made importation of silver dollars coined after 1878 a penalty, and only such as were coined previously to 1878 were legal tender. Smugglers, taking advantage of this, succeeded in flooding the country until Mexicans had become the ruling currency. At times there would be a difference of 10 and 12 per cent as between gold and silver between the Philippines and Hongkong. At the outbreak of the insurrection (1897) the Spanish Government imported 6,000,000 silver dollars, marked "Filipinas," not current in Spain, and intended solely for island circulation, and contracted with the Shanghai Bank to import $300,000 in silver, to be coined into small currency, and within one year 2,000,000 of Mexicans have been exported, and it is difficult to say how many Mexican dollars there are now in the country, but believes there are about 8,000,000 10

Accompanying the letter of the director of posts at Manila, forwarded to the War Department by the Secretary of the Treasury, is an extract from the Manila Times, containing in part the following: "All the artificial eccentricities of the place and people are concentrated in the currency. Sometimes there is a gold currency without any gold, banks, exchange brokers, and Chinese largely controlling it. Copper is a puzzle as intricate and as maddening and exasperating as the fifteen puzzle, or any other trick. If a party goes to a shop to purchase anything, it requires three-fourths of his time to figure out his currency and change. There is no rule or law to decide what is a dollar—whether it is $2, $1.90, or 50 cents. There is no currency law. The lucky owner of a dollar loses from 2 to 5 cents every time he uses it. The authorities ought to give the public a currency of some sort instead of leaving the Philippines at the mercy of exchange fluctuations in Hongkong

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or Singapore. There is no declaration that anything is legal tender. People who have American silver dollars usually lose on them because they are not made a legal tender by any notification having the force of law. If made legal tender it would settle the question at oncc. It means that soldiers are deprived of a percentage of their pay, not for anybody's benefit, but through force of circumstances in the absence of a currency law." 15

The Philippine Commission, among other matters inquired of, investigated the question of currency and took evidence of prominent brokers, bank managers, and business men, all of whom believed that any change from a silver to a gold basis would be detrimental to the interests of trade in the Philippines 21

When the new edition of the Philippine tariff was published it contained Tariff Circular 62, but no other reference to the Treasury Department circular as applicable to the Philippines 24

By General Orders, No. 30, from the office of the United States military governor in the Philippines, the government of the island of Negros was established and the salaries of officers fixed in "Mexican currency" 30

Letter from Mr. Alexander Laird, of Canadian Bank of Commerce 48

G. Bruce-Webster, agent of the Chartered Bank of India, Australia, and China, enumerates various coins in use in the Philippines; says United States coin passes current at ratio of two for one. While gold standard might be suitable for trade purposes on a large scale, it would have a very disturbing effect throughout the islands. Assuming change desirable, suggests that coinage of distinctively Philippine peso of same intrinsic value of Mexican would less disturb existing conditions. Such a coin would have the advantage of exchange with China when its merits become known. Recommends present standard be maintained by a silver peso, it to have imprint of Government authority. As charge of 1 per cent for mintage is made by Bombay mint, if such charge be made by Manila mint it might become self-sustaining. Claims that charges that the banks at Manila have tried to depress prices of American coins not founded in fact; he has never known it to be done. The present currency system of British India has not proven a success 53

ACTION ON AND PRACTICE BY DEPARTMENTS.

Action by the State Department.

April 27, 1899, the Secretary of State forwarded to the Secretary of War a communication inclosing extracts from two consular reports, wherein the following is found:

"If the country [Philippines] would get its own silver dollar and the United States would make it a rule that two Philippine dollars are worth one American gold dollar, we would have in fact a gold basis without a dear gold dollar."

He also suggested that in the matter of applying the Treasury Department circular to the value of merchandise imported into the Philippines that the date "of the invoice" be substituted for the "consular certificate" in the application of the fixed standard of value of foreign moneys. (See page 23.)

Practice by State Department Bureaus.

The State Department has not been interested to any very considerable extent in this subject as applied to the Philippines, but it has the general subject to deal with extensively in adjusting accounts and salaries of consular officers.

The rule for a time prevailed to apply the Treasury Department rate as established by the circular.

Under date of March 8, 1898, the Third Assistant Secretary of State issued a circular letter containing a decision rendered by the Comptroller, wherein had been considered the question of the application of the so-called Treasury rate in the matter of adjusting the accounts of a consular officer in China who had been obliged to use native money in the conduct of the business of his office.

The gist of the decision may be stated to be as follows:

"A United States consul in China is entitled to reimbursement for his actual loss in discounting drafts on the Treasury, but when he receives payment in Mexican dollars, the real value of such dollars at his consulate is to be ascertained, not by their bullion value as estimated by the Director of the United States Mint, but by their commercial value in the money of account of the country, the tael, the value of the latter in United States gold being fixed by the estimate of the Director of the Mint, unless it is shown that such estimate is erroneous."

Under date of August 20, 1898, another decision of the Comptroller was published by the State Department, the occasion therefor arising in the application of the rule established in the last-quoted case. In the latter the Comptroller says:

"I do not understand that any question is raised as to the correctness of the conclusion reached in that decision, nor do I understand that the principle therein announced is disputed. It was the purpose to establish a basis upon which to calculate loss by exchange, and thus allow to consular officer the 'actual loss and expense of making exchange of money' for which the law makes provision. Such officers can not lawfully insist upon a basis which gives them a profit, nor do the accounting officers insist upon a basis which requires the officers to bear a loss from their private means."

Under date of September 15, 1898, a circular was issued by the Third Assistant Secretary further explaining the rule.

See decision of Attorney-General, page 56.

Action by the Secretary of the Treasury.

Has submitted to the Secretary of War many subjects referring to complications in the line of accounts and suggestions by bank presidents and managers, advising how to regulate "the money of the Philippines." In return he has had submitted to him nearly every communication received by the Secretary of War relating to new financial questions in the conduct of the affairs of the War Department involving the questions of exchange and currency.

Has forwarded to the Secretary of War the following:

Letter from Mr. James Stillman, president of the National City Bank of New York, proposing a remedy for the "confused conditions in the Philippines." (See page 4.)

Communication from Postmaster-General, inclosing copy of a letter from F. W. Vaille, director of posts in the Philippines, relating to "complications of the currency in the Philippines." (See page 14.)

Letter from A. M. Townsend, agent of the Hongkong and Shanghai Banking Corporation, suggesting remedies for existing conditions in the Philippines, which are said by Mr. Townsend to be expensive and complicated. (See page 31.)

Responds to requests from Secretary of War for views and recommendations in following cases:

Sundry matters, including letters from Mr. Stillman and others, saying in substance "that it would seem advisable to continue to receive accounts of moneys for duties, taxes, etc., in Philippines in the currency of the country." (See page 18.)

"Deemed a very doubtful experiment to attempt to avoid the bank rates of exchange in Manila by independent purchase of Mexican dollars in Hongkong or elsewhere." (See page 18.)

Advisable at present to continue to receive moneys for duties, taxes, etc., in the currency of the Philippines (page 18).

If there shall be any loss in converting United States money into Mexican money, and reconverting it, for accounting purposes the same can be adjusted in the accounting and exact condition shown. (See page 30.)

Advises that there existed no necessity for "consular certificates" in matter of customs dues in the Philippines, and recommends that law be changed providing that the date of the "invoice" be that to determine the currency value of foreign goods for duty, and also that such invoices need not be verified. (See page 23.)

In considering account of Surgeon Woodhull and his request for a uniform rate of exchange, states that "it would be impracticable," and suggests that if disbursing officers will follow the rules and plan outlined by War Department Orders No. 65 no question like that suggested by Surgeon Woodhull will arise. (See page 30.)

Advises that the plan outlined by Mr. Townsend, of the Hongkong and Shanghai Banking Corporation, is "safe and desirable to the extent practicable," but does not advise as to its practicability. (See page 31.)

In the matter of Auditor Todd's troubles of four existing rates in Manila at one time, can not help the situation so long as officers continue to use the Director of the Mint's tables, prepared for tariff purposes only, as a basis of adjusting accounts, and confirms letter of October 30, the reply to the letter from Mr. Stillman. (See page 38.)

States substantially same thing in reply to reference to him of cablegram from General MacArthur, concerning the sudden depreciation of United States money, of August 3. (See page 46.)

Considering the proposition presented by Mr. Laird, of the Canadian Bank of Commerce, of a "Filipino dollar," he says: "It is reasonable to believe that a special dollar, quite distinct from our present coinage, to possess the same weight and fineness as the Mexican dollar, not to be legal tender in the United States, might be successfully introduced into the Orient." (See page 50.)

COMPTROLLER.

In a letter dated October 31, 1900, sees no objection to the plan suggested by Lieut. Lawrence M. Fuller, ordnance officer, who desired to purchase silver Mexican coin in Hongkong or elsewhere, wherever it could be bought at the lowest rate, for the purpose of paying local claims in the Philippines, providing the law will permit the scope now given by General Orders, No. 65, dated April 10, 1899. He, however, doubts the right of any disbursing officer to make any such or any other exchange, and refers to section 3651, Revised Statutes, and also to volume 16 of Decisions of the Attorney-General, page 381.

He also suggests that the question is one more far-reaching than simply the matter of adjusting officers' accounts, and that an opinion of the Attorney-General had better be obtained therein.

PRACTICE IN TREASURY DEPARTMENT BUREAUS.

The Director of the Mint contends that it never was in contemplation that the Quarterly Circular issued by him should ever apply to current commercial transactions, and if it has been made to apply to accounts current in the War Department or elsewhere it has not been by his advice or consent.

As a general rule but little if any occasion arises in the conduct of the business of the Treasury Department to deal in "foreign coins," the value of foreign coins as stated in the Quarterly Circular being merely, as the law states, for "estimating the value of all foreign merchandise exported to the United States."

The Treasury Department places funds to the credit of the different disbursing officers of the Government on requisition, seeing that such sums are within their appropriations. The accounting is a different proposition, and must be regulated by the branch of the Government under which the disbursing officer acts.

The Auditor for State and other Departments holds that the Quarterly Circular is the standard for adjusting all accounts where there is any deviation from rules laid down by any of the Departments, and that it is the rule in the absence of any "expressed rule" on the subject. When asked for authority for his interpretation of section 25 as stated, he referred to the case of Collector *v.* Richards (23 Wallace, page 246), the concluding sentence of which decision is, after referring to the section of law generally: "It is just, both to the Government and the importer, because it is founded on truth; and it will be a great convenience to all persons who may have any transactions in which the value of foreign money is in any way involved."

The Deputy Auditor of the Treasury says: "He knows no other basis for adjusting all questions arising in his department except the Quarterly Circular. That the very high source of authority from which it is issued is sufficient for him."

The Auditor for the War Department holds that if the provisions of General Orders, No. 65, War Department, are fully complied with, there can be no difficulty. Where the trouble comes, as in the Woodhull, Knight, Duval, and other cases, is that the disbursing officers do not prepare vouchers showing the value of foreign coins "on the day of the transaction." They go on for a term exchanging money, and then, perhaps in months afterwards, come in with a lump sum of "deficiency." That is claimed is not in accord with General Orders, No. 65.

Action by the Secretary of War.

This record shows that it has been the custom of the Secretary of War to refer practically every important question submitted to him to the heads of bureaus whose interests might possibly be affected by subsequent action. See references as follows: To Paymaster-General, to Quartermaster-General, to Commissary-General of Subsistence, to Military Governor in Philippines.

All matters involving new financial questions have been submitted to the Secretary of the Treasury.

Issued but one general order bearing directly on this subject, which if followed would have saved much of the trouble experienced, namely, General Orders, No. 65, dated April 10, 1899, which provides how accounts shall be kept wherein the question of foreign money is involved.

Acted upon the suggestion of the Secretary of the Treasury in the following matters:

Amending tariff rules and regulations providing that the "date of an invoice" shall determine the date for applying the Treasury Department basis to goods imported into the islands in the matter of assessing customs duties. (See page 24).

Unwise to attempt to avoid bank rates of exchange in Manila (page 38).

Adopted views expressed on the panicky situation portrayed by General MacArthur's dispatch of August 3, 1900, to the effect that the local banks were in combination to deplete the market value of American money and were doing so with the money of the Government officials in their hands on deposits (page 47).

Has not held that the Treasury Department circular had any reference to accounts of army officers, unless the so-called "quartermaster's rate," which is in fact the "Treasury rate," has been adopted and used with his consent and approval, as that rate is but the rate established by the Director of the Mint and published by the Secretary of the Treasury and cabled to Manila quarterly.

The fixing of the arbitrary rate of 2 Mexican dollars for 1 American gold dollar at the request of the Philippine Commission can hardly be held as an adoption of the Treasury Department rate, as it is an arbitrary one and not supposed to be fixed on the basis of the "metal value" of the money, as the Treasury Department rate is, and must be, by the provisions of the act of August 28, 1894, whereas the rate fixed at the request of the Commission is based on a supposed average "commercial value" of Mexican dollars, not as "silver," but as "currency."

No action was taken on the proposition of Mr. Townsend, agent for the Hongkong and Shanghai Banking Corporation, as subsequent correspondence probably failed to satisfy the Secretary of the feasibility of the plan, the indorsement of the suggestions of Mr. Townsend by the Secretary of the Treasury being that the plan was "safe and desirable to the extent practicable."

Other formal action by the Secretary shown herein consists in issuing orders promulgating orders of the President establishing customs rules (see page 1), and another along the same line "reestablishing the Spanish tariff" pending a revision of the first tariff issued (see page 2).

No opinion has yet been published of the views of the Secretary on the subject of a "Filipino dollar" as suggested by Mr. Baird, or of the "token currency" suggested by the Philippine Commission.

PRACTICE IN THE WAR DEPARTMENT BUREAUS.

Quartermaster-General's department.

This department has been in the habit of cabling to the Philippines the rate established by the Treasury Department each quarter and it has become to be known in the islands as the "quartermaster's rate." That rate has been in use to a great extent in adjusting accounts, and much of the trouble that quartermasters have had with their accounts has arisen from that source. A rather amusing item appears in the correspondence between the Secretary of War and the Secretary of the Treasury in discussing the cablegram sent by General MacArthur in the panicky time about August 3, 1900. The difficulty is shown to be based upon the misuse of the Treasury circular in the islands for adjusting exchange. The Secretary of the Treasury suggests that the quartermaster's rate is arbitrary and should be discontinued. Either he did not recognize the creature of his own Department, or the misuse of it so disfigured it that he would not own it. Since the Knight, Duval, and other cases the terms of General Orders, No. 65, appear to govern in this department.

Paymaster-General's department.

This office from the outset has insisted that they were obliged by law to pay out only United States currency or coin, and have adhered to that rule, and hence by all indorsements and by practice have not had the subject to deal with seriously, only so far as they have endeavored to assist officers and men in sending money to this country by getting possession of all the United States exchange they could and exchanging it for our money, so that the same could be remitted.

Commissary-General's Department.

The statement is made that this department has very little to do with the question, as most of their purchases and disbursements are of such a character that they can compel the parties with whom they deal to present their accounts in United States currency; that if any basis is required, then the quarterly circular governs.

Philippines Departments.

The several departments in the Philippines keep all of their accounts in Mexican currency, in keeping with the general custom of the country. As they are under the control of the military governor, they can arrange for a uniform basis.

The most striking feature in the Philippines is the conduct of the business of the post-office department. The director of posts for the Philippines has very nearly the powers of the Postmaster-General. He buys stamps of the authorities in Washington as he would any other bill of printing. Stamps by that rule should cost but a small fraction of a cent a hundred. He then sells them as he pleases, and what of profit is made is closed into the islands treasury. As a result the local islands rate is just one-half that of local postage in the United States.

The treasurer has been keeping his funds by daily quotations, but has recently changed his plan.

The chief surgeon in the islands has recently had an opportunity to have the fallacy of the Treasury circular as applied to current business exemplified.

Notwithstanding the experience of the other branches of the various departments, the chief of ordnance in the Philippines now wants a "fixed rate" established for him, with the privilege of buying Mexican silver in quantities.

The Military Governor in the Philippines.

He has frequently, and in fact every time when called upon, stated in terms that can not be misunderstood that there is a great necessity for several new features for the safety and general good government of those islands. He suggests that a subtreasury or depositories should be provided for; that the time is not ripe for any change from silver to a gold basis; that the United States should by some means control beyond a question the finances of the islands; that the present circulating medium of the Philippines is, as near as can be ascertained, $6,000,000 of Filipinos,

$10,000,000 of subsidiary coins, $10,000,000 Mexicans, and about $1,500,000 of bank notes of the Banco Español-Filipino, the only bank allowed to issue money in the islands; shows how it sometimes happens that there are four different rates prevailing at one time, and cites one day when such was the case, varying from $0.474 to $0.50.

Action by the Postmaster-General, shown in record.

It does not appear that, beyond inclosing papers from subordinates both to the Secretary of War and Secretary of the Treasury, the Postmaster-General has taken any part up to date in the general discussion of this question.

PRACTICE BY POST-OFFICE DEPARTMENT BUREAUS.

The currency question as discussed herein has not as yet seriously concerned the Post-Office Department, as all the Philippine business of that Department, in so far as the returns coming to Washington show, are entirely in United States currency.

The general question of exchange and currency is fixed by law and maintained by "conventions," by which agreements are entered into whereby a basis is established with each important foreign country for money-order exchange, the only way in which the question of foreign money arises generally in that Department.

The mail service in the Philippines was at the outset all conducted as a suboffice of the San Francisco, Cal., post-office. After the appointment of a director of posts in the Philippines he has had entire control of all postal affairs, for a time absolute, and now under the supervision of the military governor.

A distinction is made between the terms "postal service" and "money-order business." The former relates and is understood to cover all business excepting the money-order service. In the money-order service the post-offices at Manila and other larger points where money orders are issued are still under the supervision of the San Francisco office. No trouble has as yet arisen in the direction of this inquiry for the reason that up to this time the Department has required all money-order business to be conducted on the basis of and in United States currency.

There is at this time a representative of the Post-Office Department on his way to the Philippines for the purpose of changing the system and making the local offices there direct money-order offices, if practicable. It looks as if the trouble of the Post-Office Department is but beginning, and there will undoubtedly be many questions to perplex it.

Navy Department.

It does not appear that the Navy Department has had any correspondence with the War Department upon this subject, although the original letter of Mr. Stillman, dated March 2, 1899, includes the naval officers in the general statement that "the financial methods adopted in the Philippines are confusing and unnecessarily expensive to the United States Government."

It does not appear from the records of the chief clerk's office in the Navy Department that the communication of Mr. Stillman was ever referred to the Navy Department for consideration, presumably for the reason that the officers of the Treasury Department knew that no such difficulty existed in the Navy Department.

Section 1512, page 324, Regulations for the Government of the Navy of the United States, edition of 1900, reads as follows:

"1512. The following instructions as to the proper mode of accounting for, and paying out the proceeds of, bills of exchange shall be strictly observed by the pay officers of the Navy:

"(*a*) When bills are made payable in United States money, or are sold for such otherwise than at par, the entries in the 'account sales' should be so made as to show not only the net amount actually received by the pay officer, but also the face value and the premium or discount charged thereon. Examples: (1) 'Proceeds of bill No. 10, for $10,000 United States coin, at 5 per cent premium, $10,500.' (2) 'Proceeds of bill No. 12, for $10,000, United States coin, at 3 per cent discount, $9,700.'

"(*b*) When bills are drawn, or the proceeds thereof are received in foreign money, the entries in the 'account sales' should show the amount and kind of money drawn for and the amount and kind of money received, both at its local current value, as to the money drawn for, and its legal value in United States money, thus: 'Proceeds of bill No. 20, for £1,000 0s. 0d. sterling, received in francs at 24.85 francs per pound, sterling, 24,850 francs, at 19.3 cents, $4,796.05.'

"(*c*) In accounting for the proceeds of bills of exchange in their monthly summary statements and quarterly accounts current, pay officers shall credit the United States with the legal United States gold equivalent of the face value of the bills and credit or debit the United States with the premium or loss on exchange, as the case may be.

"(*d*) The legal value in United States money of the standard foreign coins is proclaimed by the Secretary of the Treasury quarterly, and pay officers are required to keep themselves supplied, by timely application to the Auditor for the Navy Department, with the official circulars containing the information.

"(*e*) All foreign money received will be charged to and paid out by pay officers at the legal valuation thus fixed, without regard to its local valuation where received and paid." (See opinion of Attorney-General, page 56.)

To meet the fluctuations in the value of foreign money and exchange, there is contained in the regular appropriation bill passed annually by Congress an item entitled "Pay, miscellaneous," which is an omnibus item covering many items of expenditure; among others, "commissions, interest, and exchange." This appropriation of "Pay, miscellaneous," is used by the Navy and Treasury Departments to adjust all questions suggested by the subdivisions—"commissions, interest, and exchange."

The Navy Department, above all others, is required to be prepared to use money in different parts of the globe at any time, and, hence, we find that the provisions of law protecting that Department are regularly provided for in the appropriation bill, and all variations from the Treasury Department Quarterly Circular which show losses to the Government in exchange are charged to that appropriation, and all such transactions, if any, showing a profit to the Government are credited to that appropriation. The procedure, in brief, is as follows:

The paymaster desiring funds for use at a foreign port is furnished with drafts in triplicate, which are made on some depository in England or the United States, made large enough that when sold at the current market value of United States currency, and the exchange, will produce the sum required for expenses at a particular port. Statements are then made to both the Navy and the Treasury Departments of the transaction, the accounts rendered showing what disposition is made of the funds, and should any surplus remain in the hands of the disbursing officer it is reconverted, and any difference arising is debited or credited. Appended to the statements furnished the Navy and Treasury Departments is a certificate which must be signed by two resident merchants stating what the "rate of exchange" is on the particular day, and it must be certified to as of "this day," and the rate so certified to must then appear in the account so rendered. The money thus procured is used for all the necessary expenses of the ship—pilotage, repairs, fuel, and pay of officers and men—and other incidental expenses. The disbursing officer estimates the amount probably required and makes his draft upon the estimate so made.

Department of Justice.

This Department does not appear to have had any correspondence upon this subject.

Inquiry at the Department develops the fact that, notwithstanding the United States mail was and has been handled in the Philippines as a branch office of the San Francisco post-office, and further that as the postal money-order system is at the present time so conducted there never has been a United States marshal, assistant marshal, or United States commissioner in the Philippines, and hence the question involved in this inquiry has never arisen in that Department.

Interior Department.

It does not appear from this record that this Department has ever communicated with the War Department or any of its bureaus upon the subject of exchange in the Philippines.

Inquiry of the chief clerk of the Interior Department developed the fact that there was no business of that Department in which the question involved in this inquiry was material. There are no public lands in the Philippines over which that Department has yet assumed control.

The matter of patents for inventions has not as yet been taken up to any considerable extent. United States pensions are always paid in United States currency.

The Indian question, which may become an important one in the future, has not yet been placed in charge of this Department, and its control of matters of education has not thus far been extended to the Philippines; and, to use the language of the chief clerk, after a full consideration of our inquiry and all of the different branches involved therein, he said: "In so far as the matter of exchange and dealing in foreign money is concerned, the Interior Department does not know officially that the United States has anything to do with the Philippine Islands."

Department of Agriculture.

It does not appear that any correspondence has ever taken place between the Department of Agriculture and the War Department on the subject-matter of this investigation, and, as yet, as an abstract proposition, the Department of Agriculture has experienced no difficulty in the Philippines, as all the investigations and preliminary work done in that district has been gratuitous service rendered by officers of the Army and local officials in the islands.

The questions of forestry, seeds, plants, bulbs, and others akin thereto, will very soon arise, and it is the intention of the Secretary of Agriculture to ask Congress at its next session, for an appropriation to enable it to develop this work in all the islands.

There is no one Department of the Government, however, which suffers more in a general way, in the matter of exchange, than the Department of Agriculture, and it arises from an application of the provisions of section 25 of the act of 1894, and the circular issued by the Treasury Department thereunder, by the Auditor of the Treasury in the matter of adjusting their accounts.

For instance, it is necessary for this Department to enlist the services of foreign consuls and consular agents and representatives, officers of the Army and the Navy, who may be stationed or who may be traveling in foreign lands, and oftentimes individual travelers and pleasure seekers are induced to render service to this Department in securing rare seeds and other similar specimens both useful and instructive. These engagements are made oftentimes hurriedly by mail, telegraph, or otherwise, and this Department has received great assistance from such sources.

As a natural result, expenses of purchase and transportation of products thus secured are incurred, and usually paid by the parties procuring them, such service being purely gratuitous.

After a time bills will be forwarded to the Agricultural Department and, after proper indorsement, transmitted to the Treasury Department for settlement, when, to the surprise, chagrin, and oftentimes mortification of the Agricultural Department, the bill will be allowed at a considerably less amount than the actual outlay.

The difference arises by reason of a variation between the actual money expended at the request of the Agricultural Department and the American value of that money stated in the Treasury Department circular of the quarter in which the account is rendered.

This is embarrassing to the Department under all circumstances, but particularly so when, in the interest of their work, they experience the serious difficulty when dealing with foreign colleges, departments of state of other governments, and institutions which, at the time the indebtedness is incurred and money advanced, repose implicit confidence in the belief that they will be repaid for their outlay, to be met later on with a proposition of reimbursement at a sum considerably less than that actually expended. The result of these and similar transactions is that the Department of Agriculture is seldom able to obtain the services as above suggested more than once, for people dealing with the United States Government, making cash advances, and then finding themselves compelled to pay for the courtesies extended, do not solicit further correspondence along the same line.

Inquiry at the Treasury Department developed the fact that the reasons for such adjustment were based, first, upon the fact that no voucher accompanied such accounts showing the actual value of foreign money at the time it was expended, and the authority then for applying the rates established by the Treasury circular is the decision referred to in 23 Wallace, page 246.

Traveling agents for the Government, under regular employment, encounter the same difficulty in the matter of expenses and purchases, and are not often desirous of making a second trip.

CURRENCY AND EXCHANGE IN THE PHILIPPINES.

The subject-matter of this inquiry is far-reaching in its effects on the entire system of accounts of the Government. While it is true that some of the latent difficulties attending the accounting system have not been developed until the conditions arising in the islands brought them to light, yet the defects have long existed, and the disadvantages arising therefrom have been felt to a certain extent for years.

The first question which arises in the consideration of this subject is, What is the currency of the Philippines? It should be easy to answer, and it should be American coin, but it is not. If you go into a store kept by a merchant of any nationality and ask the price of his wares he will give you a price in Mexican money. It is not deemed necessary to add "Mexican" to the remark; they simply quote the price and assume that the customer understands it to mean Mexican.

If you go to the post-office it is necessary to produce American money for postage stamps, and if you desire to purchase a money order that must be done on the basis of the American dollar. It is not clearly shown either by orders or rules promulgated what money is actually receivable for customs and duties. Rates are fixed in both American and Mexican moneys, and there appear two different standards which have been fixed, and both of them refer to Mexican money as such.

The Code of Commerce, which in the absence of any better law is controlling, does not state definitely what money shall be standard or current even. Its only reference to the subject which can in any degree aid this investigation is found in article 489, page 113, where, in defining how bills of exchange shall be paid, it says:

> Bills of exchange must be paid in the money designated therein, and if that could not be procured, in its equivalent, according to the use and customs at the place of payment.

It would appear that a bill in which no particular kind of money was specified would be payable in Mexican money if due and payable in the Philippines.

Under date of July 13, 1898, Mr. R. A. Alger, Secretary of War, issued a circular containing an order issued by the President as follows:

> EXECUTIVE MANSION, *July 12, 1898.*
>
> By virtue of the authority vested in me as Commander in Chief of the Army and Navy of the United States of America, I do hereby order and direct that, upon the

occupation and possession of any ports and places in the Philippine Islands by the forces of the United States, the following tariff of duties and taxes, to be levied and collected as a military contribution, and regulations for the administration thereof, shall take effect and be in force in the ports and places so occupied.

Questions arising under said tariff and regulations shall be decided by the general in command of the United States forces in those islands.

Necessary and authorized expenses for the administration of said tariff and regulations shall be paid from the collections thereunder.

Accurate accounts of collections and expenditures shall be kept and rendered to the Secretary of War.

To which the Secretary of War added:

Upon the occupation of any ports or places in the Philippine Islands by the forces of the United States the foregoing order will be proclaimed and enforced.

On page 23 of Annual Report (1899) of General Otis it is stated:

The customs tariffs and regulations which had been prescribed for application were faulty in many respects and required amendment before they could be intelligently applied. It was therefore ordered on September 29 [1898] that "the enforcement of these regulations be postponed until the 10th day of November next, and that the tariffs and duties at present imposed be continued to be applied in the port of Manila until that date, etc."

This last order must have created confusion, if it is correctly stated by General Otis. When the President issued his order July 12, 1898, he declared that the rules therein made and promulgated "shall take effect and be in force, etc.," it had the effect of repealing and setting aside all other tariffs and regulations. If the order of the military governor in September suspended the operation of that order, and did not in terms restore the former Spanish tariff, it must have left the islands without a tariff for a time. The old tariff had been extinguished, and the suspension of the new, without some language restoring the old, there would be none in force. The "tariffs and duties at present imposed" must have been an unknown quantity. While it is not particularly stated that the peculiar language of the order of September 29 made any trouble, yet the remedy that was immediately applied suggests that it was soon discovered that the islands were in fact left without a tariff. The remedy is found in Tariff Circular No. 18, issued by R. A. Alger, Secretary of War, under date of October 13, 1898, found in the Tariff Pamphlet on page 1, and is as follows:

War Department,
Washington, October 13, 1898.

By direction of the President, it is hereby ordered that the operation of the order dated July 12, 1898, establishing the customs tariff and regulations for ports in the Philippine Islands in possession of the United States, shall be suspended until the 10th day of November, 1898, when the same shall take effect and be in force.

Until that time the Spanish tariff as now applied will be enforced and collected.

This made the matter clear. It was the Spanish tariff which was to govern, and it would then naturally, unless some different orders were given, carry with it the privilege of paying and receiving duties and customs in Spanish or Mexican money. This view is sustained by the further fact that the tariff itself is stated in Mexican money. It is true that there are some articles stated thus, $0.10, which would indicate that it was intended to use the fraction of a dollar, yet there is nothing to show that other than the Mexican dollar was intended. Further, on page 35 of the pamphlet entitled, "United States Provisional Customs Tariff and Regulations" (Incl. 2, Customs Card 21), is found the following:

369. The monetary unit of the Philippines is the silver peso of the mint.

370. The current money in circulation in the Philippines shall be received for duties, taxes, and other exactions in the manner and upon the same basis of valuation theretofore prevailing as that in use prior to the military and naval occupation.

372. The foregoing schedules and provisions, based upon the tariff and taxing laws heretofore in operation in the Philippine Islands, including such other taxes and exactions heretofore collected as in the discretionary judgment of the commanding general shall be considered proper and necessary, shall be and remain in force until duly modified, suspended, or revoked.

The foregoing would seem to lead to the conclusion that, whether intended or not, the United States authorities had in fact established as the "money in force" and the "current money" of the Philippines the Mexican dollar.

Showing that the matter was further duly and carefully considered, there is to be found on page 23 of General Otis's annual report the following:

Upon October 3 (1898), Capt. J. F. Evans, of the Volunteer Subsistence Department, who had been sent to the Philippines to assist in revenue matters, was assigned to duty at the custom-house, his services to be temporarily "confined to a careful consideration of trade conditions and an exhaustive study of the United States customs and tariff regulations prescribed for application, with a view of suggesting amendments and modifications therein, in order to render them as practicable as possible to existing circumstances." The entire labor of revision was imposed upon him and he performed it in a most satisfactory manner. His revision was adopted and put in force at the announced date (November 10); has given satisfaction to all parties concerned, and has worked smoothly, only a few minor amendments having been made since it became operative.

The foregoing and a subsequent tariff were printed in the Philippines, referring to the "silver peso."

In the meantime two editions of the Philippine tariff were printed in Washington. There is to be found in each of them the following change in the monetary unit. It is to be found on page 28, and reads as follows:

365. The monetary unit of the Philippines is the gold peso, of the mint. Estimated of value, $1.034.

Sections 366 and 367 which follow are the same as sections 370 and 372 quoted from the first edition of the printed tariff.

All subsequent tariffs are, like the original, computed in Mexican money.

Presumably the new tariff went into operation as stated and worked well, as there does not appear to be any correspondence indicating anything to the contrary. That Mexicans continued to be the standard, we find Major-General Otis, under date of January 23, 1899, in a letter to the Secretary of War, referring to the future revenue, says:

Had we possession of the islands, the revenues of Manila would probably be about $12,000,000, Mexican, per year; will probably be about $600,000 for present month.

General order of the military governor, dated March 1, 1899, No. 7, adds a new paragraph to the tariff, fixing a rate on bicycles and typewriters, and fixes it in "pesos."

By the receipt of a letter by the Secretary of the Treasury from James Stillman, president of the National City Bank of New York City, an extensive correspondence and investigation of "financial methods" in the Philippines was made.

There does not appear to have been any special cause for the investigation at that time; it was probably the natural outcome of the system.

The original correspondence and its outcome is as follows:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
Washington, D. C., March 3, 1899.

DEAR SIR: I have the honor to transmit herewith for your information and consideration a letter from Mr. James Stillman, president of the National City Bank, New York, dated March 2, 1899, relative to the financial methods by which business with the United States Army and Navy officers in Manila is being done.

Very truly, yours,

L. J. GAGE, *Secretary.*

To the Honorable
The SECRETARY OF WAR.

The letter inclosed was as follows:

THE NATIONAL CITY BANK OF NEW YORK,
PRESIDENT'S OFFICE,
New York, March 2, 1899.

DEAR MR. SECRETARY: Our correspondents in Manila advise us that the present financial methods adopted there of doing business with the United States Army and Navy officers are confusing and unnecessarily expensive to the United States Government and inconvenient to the various parties to whom payments are made, namely, soldiers, sailors, contractors, etc.

I understand that at present the United States officials make all contracts and keep all accounts in United States dollars and pounds sterling, whereas the currency of the Philippines is Mexican dollars.

It is obvious that contractors and others wanting money for local uses must finally submit to a rate of exchange, and I think that anyone conversant with the business knows that the exchange would be better settled originally by the United States Government with an exchange bank in New York rather than leave it to different interests to arrange or estimate.

Possibly some steps may be taken in the future to assimilate the currency of the Philippines to that of the United States, but in the meantime large financial transactions have to be conducted on behalf of the United States Government, who pay in

United States dollars to recipients who need Manila local money, namely, Mexican dollars.

It is, as you know, a part of our business to do these exchange transactions, and we could, at any time, place any amount in the Philippines at the disposal of United States officials, either by mail or by cable, at current rate of exchange.

Believing, therefore, that we could effect a great saving to the Government, we beg to offer our services for the transaction of this business. We are,

Yours, respectfully,

JAS. STILLMAN, *President.*

Hon. LYMAN J. GAGE,
Washington, D. C.

The correspondence was referred to the several heads of Departments for remark, with the following results:

Under date of March 7, 1899, the Acting Paymaster-General said:

Respectfully returned to the honorable the Secretary of War. This office has no recommendations to make, but if it is a fact that the currency of the Philippines is Mexican dollars and their commercial value is as about two to one compared to the commercial value of American money, it would seem that officers of the Army and Navy and other creditors of the United States in those islands should not be deprived of any advantage so favorable an exchange of money gives them in their isolated and uncomfortable stations. On the other hand, were the rates of money against American money, it is doubtful whether the Government would, without new legislation, make the loss good to its creditors in the Philippines. In any event American money, whose value is at par with the moneys of the world, should, it seems to this office, be paid to Americans in any part of the world.

C. C. SNIFFEN,
Acting Paymaster-General.

Under date of March 10, 1899, the Quartermaster-General said:

Respectfully returned to the honorable the Secretary of War with the remark that this office has had no complaints from its officers in the Philippines, and in the absence of such it is concluded that they do not encounter difficulties of any moment in the financial methods now in vogue there. I agree with the Acting Paymaster-General of the Army that Americans, wherever they may be in the service of the United States, are deserving of and should receive payment in American money at par with the moneys of the world; and I would earnestly commend any improvement possible in existing methods in Manila; but in the absence of information as to whether the use of the National City Bank of New York would be either more economical to the Government or better subserve the interests of the creditors of the United States this office refrains from making any recommendation in the premises. It is thought that reference of these papers or copies of them to the commanding general in the Philippines for full report of the financial methods now in vogue there, and for such recommendation as he may be disposed to make looking to the improvement of those conditions, might elicit information of value in connection with this matter.

M. I. LUDINGTON,
Quartermaster-General.

Thereafter, by order of Assistant Secretary Meiklejohn, the paper was referred to Major-General Otis, with request "for an expression of his views hereon and suggestion as to the regulation of the rates of exchange between the Philippine Islands and the United States."

General Otis referred the same to the chief quartermaster, chief paymaster, Department of the Pacific and Eighth Army Corps, and the treasurer of public civil funds, Manila, P. I., for report as to the saving in expense and convenience, if any, to the Government and to the officials and forces of the United States in the Philippine Islands the fiscal arrangement proposed within would have over those under which exchanges in money are now made here.

Under date of June 3, 1899, General Otis returns the reports called for by him from his officers, and with them says in transmittal:

I have the honor to inclose herewith the reported comments and expressed opinions of the chief paymaster, chief quartermaster, and the chief commissary of the Department of the Pacific, also those of the treasurer of public civil funds, upon the subject-matter of the communication of the president of the National City Bank of New York, together with their views on money currency exchange in these islands. These officers handle nearly all of the United States public moneys received and disbursed in the Philippines, and have detailed the methods pursued by them in the prosecution of public business.

With the exception of the disbursements of the pay department nearly all receipts and expenditures of money incident to the transaction of army business here are confined to the currency of the country, which in reality is based on Mexican silver money as the standard. The public revenues which are received in this currency are quite large, and on them warrants are drawn in favor of the officers authorized to disburse them. All contracts, verbal or written, on which funds are disbursed and which affect labor, rentals, and supplies procured in the Philippine market are made and executed as regards the expenditure of money upon the prevailing currency basis, and amounts due are paid from the public civil funds at the prevailing market rates; hence this class of business is not affected in any wise by the varying rates of exchange. In contracts for certain supplies brought from foreign countries, as, for instance, beef from Australia, payments in English or American currency are stipulated and the medium of drafts are employed. It is, then, the individual employees of the Army, soldiers, civilians (clerks, etc., brought from the United States and who receive their monthly compensation in gold coin) who are the sufferers by an unstable rate of exchange. Their expenditures in the islands are in Mexican silver, and to obtain this they must sacrifice a considerable percentage, as if they pay in gold in the market they are allowed but two for one, and if they seek the medium of banks they obtain a very low rate for their gold.

The chief paymaster's suggestion that he be allowed to keep in his possession in lieu of an amount of gold always on hand a moderate amount of Mexican silver, purchased in the United States markets and sent by Government transports, with which to buy up the gold which soldiers and employees wish to dispose of at a rate of exchange periodically established by the War Department, would meet these special difficulties. The banks of the country buy up all the gold which it is possible to obtain at the lowest exchange rates, which in fact they fix, and ship it out of the country, and hence the gold introduced by the United States seeks a foreign market. A private bank deposit in gold means merely a credit deposit in silver in which the silver is charged at the highest obtainable rate, and it is not possible to regain the gold on check without making a purchase of it. Hence, letters of credit are attended with difficulties and loss and should not be employed. With this silver on hand in the vaults of the paymaster, with deposits to the credit of disbursing officers in the subtreasuries of San Francisco and New York, also small deposits in London, business could be successfully conducted until it is possible to establish a United States national bank or subtreasury in Manila.

The fluctuating price of Mexican silver is due to a great extent to the past action of the Spanish Government and impossibility of carrying out its decrees with regard to it. That Government attempted to control silver importation, but has never been able to meet the cunning of the smugglers. It charged duties on importations which it could not collect, and its final act was to permit banks to import free of duty, in return, it is supposed, for favors received.

Very respectfully,

E. S. OTIS,
Military Governor.

As stated in the communication, it was accompanied by papers and opinions from the several officers named.

The chief paymaster said:

HDQRS. DEPARTMENT OF THE PACIFIC AND EIGHTH ARMY CORPS,
OFFICE OF THE CHIEF PAYMASTER,
Manila, May 9, 1899.

Maj. C. H. MURRAY,
Ins. Gen., U. S. V., Mil. Sec. of Mil. Gov.

MAJOR: In reply to your indorsement of the 25th of April directing me to report as to the saving in expense and convenience, if any, to the Government and to the officials and forces of the United States in the Philippines by the fiscal arrangement proposed by the president of the National City Bank, of New York, in his communication of March 3, 1899, to the Secretary of the Treasury, I have the honor to submit the following report:

Mr. Stillman states that "Our correspondents in Manila advise us that the present financial methods adopted there of doing business with the United States army and navy officers are confusing and unnecessarily expensive to the United States Government, and inconvenient to the various parties to whom payments are made, namely, soldiers, sailors, contractors, etc."

The soldiers since our arrival have been paid in United States gold and silver coin, and are now for the first time receiving part payment in United States Treasury notes, which latter the agents of the Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia, and China have assured me will be received by them at the same rate as United States gold. As these islands are now part of the territory of the United States, no time should be lost in educating the inhabitants to the superior value of our Treasury notes. For some time they have been familiar with our gold and silver coins and take them readily. Our dollar in gold is received by bankers, merchants, and natives at the current rate in Mexican or Filipino silver, which has fluctuated from $2 to $2.08 since we have been here; that is to say, the banks give for a $5 American gold piece $10 to $10.40 in the current silver of the country, and our silver dollar is accepted by all classes as worth $2 in Mexican or Filipino coin.

The confidence of all classes felt in the financial soundness of the United States makes our silver dollar pass here as worth double that of any other country, notwithstanding the fact that the Mexican dollar contains 416 grains of silver while ours contains only 412½ grains, and perhaps the potent reason is that it passes in the United States the same as gold. Should we abandon this country it would fall at once to a lower value than the Mexican dollar. We have perhaps about 200,000 American dollars in silver coins in circulation here at present.

The $4,700,000 brought for disbursement in the Philippines by the pay department has been shipped to me from San Francisco on transports without cost to the United States, as the transports brought troops or supplies and were chartered at so much a day and there was no extra charge for bringing the money.

Our officers and men have made no complaint and expressed no dissatisfaction at their being paid in American gold and in subsidiary silver. There would be great complaint, however, should we attempt to pay, as suggested, in Mexican or Filipino silver, as at the lowest current rate, $2 for $1 gold, each private soldier would at the bimonthly payment have to take 62.4 ounces of silver of fluctuating value, which would weigh more than 60 rounds of ammunition, while a second lieutenant's pay would weigh about 29 pounds and a colonel's about 73.

When a soldier wants Mexican dollars with which to make his purchases in Manila, he goes to a bank and exchanges part of his gold for it, and is encumbered with no more than he wishes to spend.

There is a United States statute, section 3584, which is an insuperable prohibition to paying the troops in Mexican or Filipino silver, which reads: "No foreign gold or silver coins shall be a legal tender in payment of debts." Act approved February 21, 1857. As the soldiers are citizens of the United States, they would object to being paid in anything but American coin or currency. Should they accept it without protest, which they would not do, of course it would be a settlement of the indebtedness to them, but a ridiculous imposition.

The fluctuation of all silver coins, except those of the United States, would entail differences, and at times, loss, unless a rate at which they should be paid out were fixed for stated periods by the United States Treasury for the Army, as is now done for the Navy, and the loss would fall upon the paymaster, as there is no law known to me by which he could be relieved from the difference.

After pay days, officers and soldiers take their gold and silver to the paymaster, who gives them checks on the assistant treasurers at New York and San Francisco for the amounts they wish to send home, and they are saved the expense of purchasing drafts from the banks. They also get postal orders for about $50,000 monthly, the postmaster informs me.

The amount paid out to troops in March, 1899, on the muster and pay rolls of February 28, was $987,825.32. Of this amount there came back to the pay department, from 3,555 soldiers' deposits, $119,570.22, and for 1,599 checks given the troops, $192,914.06; making a total of $312,484.68, or 33 per cent.

The two English banks of Manila seem to be in collusion, and charge exorbitantly for all business transacted over their counters. When an officer or enlisted man goes to deposit his gold with them it is credited to his account in silver, at the current rate—for this is a silver country—and if he want gold for any purpose they charge him never less than 5 per cent for it. I have noticed that when pay day approaches the banks put down the rate for gold, so they can make a greater profit from the soldiers.

To prevent the loss from depositing in the banks their money and having it changed into silver of the country, I receive from soldiers and officers special deposits, and keep them in a large safe in my treasure room. They have access, whenever they wish, to their bags, and keep their own account on the tag attached. This is an unofficial matter. It is regarded an accommodation, especially to the men on the fighting line, who have no means of keeping their money safely; and many have placed in my care their watches and other valuables, also. An American bank is sadly needed here.

There is only one great want unsupplied. The Pay Department should ship me about half a million of Mexican dollars, and permit me to give it to officers and soldiers for American gold and currency at the cost in the United States. Say, for instance, the value of the Mexican dollar is 47.4; that is, 2.109 Mexican equals one United States dollar. The rate should be fixed at 2.10 in exchanging it as it is impracticable to get enough Filipino copper coins to pay the odd cents, as there is a great scarcity at present, and the paymaster otherwise could not pay the exact value to the soldier, and the nine one-thousandths should accrue to the United States to cover the expense of purchase, shipment, and commission. Whenever the

Pay Department does this the banks will lose their chief source of profit, and will have to give nearly the true value for gold to our citizens.

As the quartermaster and subsistence departments deal with the merchants, contractors, and natives of the country, it would be of advantage to the Government to ship Mexican silver to them to pay for their purchases, and not require them to purchase it from the local banks.

The Hongkong and Shanghai Banking Corporation has a branch bank here and one at Hongkong. The latter branch issues bank bills, but the branch in Manila will not accept them, I am told, except at a discount of 3 per cent.

The Banco Filipino Español of Manila is in a precarious condition. It has about $2,000,000 in bank notes in circulation. The Spanish Government made a forced loan from it of about $2,000,000, and unless Spain pays back this money this bank will become insolvent.

As this is at present a military government I would suggest that the English banks be required to take special deposits and pay out gold to such depositors.

Authority should be given the pay department to receive all United States coin and currency from merchants and citizens and give checks therefor on the subtreasuries in New York and San Francisco. This would save the risk of shipping by sea from the United States a like and large amount of money periodically and reduce the profits of the two English banks, which deserve no consideration from us. There is a demand for such checks.

Disbursing officers should have part of their money placed to their credit with the assistant treasuries at New York and San Francisco, as their checks would be as acceptable as gold. All contractors understand the worth of our money. The laborers and small native contractors should be paid in Mexican coin supplied from the United States. This policy would force the Manila banks to give nearer the true value of gold than they do now.

I inclose a copy of a paper on Philippine currency furnished me by the resident manager of the Hongkong and Shanghai Banking Corporation.

It is said an American bank will be opened in Manila in a few months. If it resists the temptation to go into collusion with the English banks it will be of great benefit to the community. If it goes in with them it will make enormous profits and be of no benefit to us.

As to assimilating our currency to that of these islands or not, is a question for much thought, as any change from a silver basis would, I believe, without the admission of sugar into the United States free of duty, destroy the chief industry of these islands. Hemp can stand it, for it has no competitor. Tobacco, being a luxury, should not be considered.

It may be found that we can use the mint of Manila to profitably coin part of the great surplus of silver in the United States Treasury into pieces like those now in general use here, and it may be the means of gradually reducing the surplus at home. But these questions require the thought and experience of the wisest financiers and of those familiar with the trade and industrial conditions which obtain in the Philippines.

No advantage would accrue to the United States from a letter of credit from the National Bank of New York, or from any other bank. It would only produce Mexican or Filipino silver here, and would not be better than gold for any purpose. The letters of credit given disbursing officers have produced no gold and the officers drawing on them have been obliged to take current silver at the rate for the day, whether it was 2, 2.02, or 2.04. No advantage would be gained by issuing a circular fixing the equivalent in our money of the coins in circulation here. The price of silver should regulate their value, and would do so if the bankers were disposed to do business at a fair rate.

Very respectfully, CHARLES MCCLURE,

Major and Paymaster, U. S. A., Chief Paymaster.

The inclosure mentioned in the foregoing communication, as furnished by the manager of the Hongkong and Shanghai Banking Corporation, is as follows:

Philippine currency: The currency of the island was originally gold, in pieces of $1, $2, and $4, with the Mexican and old Spanish dollars circulating to a limited extent, frequently at a premium over the gold dollar. When, however, silver began to depreciate, the gold coin was rapidly exported and replaced by the Mexican dollar and it was found necessary, in order to check the inrush of the coin, to pass a law in 1877 declaring the importation of the Mexican dollars illegal and making legal currency only of those Mexican dollars in the country which bore a date previous to 1878. However, this arrangement served no purpose, as contraband was carried on to such an extent that in a very few years the gold currency ceased to exist and the currency of the place *became the Mexican dollar*, sterling exchange and exchange on Hongkong being inflated here proportionately as it cost smugglers to lay down these Mexican dollars in Manila, calculating the many "charges" consequent on the smuggling in of the same, and premium charged in China on dollars dated before 1898. For instance, during the export season when money was scarce, our rates would rule as high as 10 to 12 per cent over those of Hongkong, from whence the dollars were smuggled, in order to attract contraband; while in the autumn our exchange would fall to "par" on that place, there being frequently an export of Mexican dollars at this season to be again replaced by smuggled coin when required. This is the present situation. During the last few years the Government has been steadily recoining the Mexican dollars into half dollar and 20 and 10 cent pieces of 835 fineness only and 25 grammes, evidently with an intention of finally calling in the Mexican dollars at a substantial gain to themselves; but, in view of the steady contraband, they have been quite unable to decrease sufficiently the large stocks of this coin sufficiently to allow the many schemes proposed for the conversion of the currency to be feasible. On the outbreak of the insurrection in 1897 the Government sent over 6,000,000 silver dollars 900 fine 45 grammes (the same as the silver dollars now current in Spain), but marked "Filipinas" and not current in Spain, and have besides contracted with the Hongkong and Shanghai bank to import £300,000 silver to be coined by the mint into half dollars. These measures have filled the place with currency, and there is, for the present, no attraction to smuggle. Last autumn about 2,000,000 Mexicans were exported—a repetition of this is not likely during this coming autumn. It is difficult to say how many Mexicans there are now in the country, opinions differ so very much, but the writer thinks 7,000,000 to 8,000,000 a good guess.

From the above it will be seen there has always been a steady import and export of Mexicans during many years, though nominally contraband, practically our currency here being the Mexican dollar, backed however by a large stock of subsidiary coinage.

May, 1898.

The chief quartermaster also replied at length to the request of the military governor that he too consider the letter from Mr. Stillman, and report. Under date of April 29, 1899, in a communication addressed to the Secretary of the military governor, he said:

Sir: In accordance with your indorsement dated April 25, on a communication from the Secretary of the Treasury, I have the honor to make the following report and recommendations:

First. Prior to my leaving San Francisco the Quartermaster-General notified me that there would be furnished me a letter of credit for the equivalent in pounds sterling of $450,000 gold, and that I would be furnished upon arrival at Manila with

100,000 Mexican dollars. As the equivalent of the $450,000 I received a letter of credit on Seligman Brothers, of London, England, for 90,000 pounds sterling, and also received 77,000 Mexican dollars, which were invoiced to me at the rate 47¼ cents gold each, the price paid for them in the open market. I telegraphed the Quartermaster-General requesting that he state the rate at which pounds sterling and Mexican dollars should be computed in American coin. The reply received by me stated that the fixed rate of pounds sterling was $4.8665 (Rev. Stat., 3565) and that there was no fixed rate for Mexican dollars. These 77,000 Mexican dollars (the other 23,000 having been turned over to Maj. S. R. Jones prior to his leaving San Francisco) were expended and accounted for by me at the rate of 47¼ cents gold for each Mexican dollar.

Second. Upon my arrival at Manila Bay I found that the Navy was using a rate furnished by the Treasury, i. e. $45\frac{4}{10}$ cents gold for each Mexican dollar. At this time the rate of exchange at Hongkong on sight drafts on London was 1s. 11⅝d., and at this rate there would be obtained for 1 pound sterling 10.26¾ Mexican dollars.

According to the statement of the Quartermaster-General that I would be furnished the equivalent in pounds sterling of $450,000, this would make the value of a pound sterling $5 American gold, or five American gold dollars would obtain 10.26¾ Mexican dollars, making the value of a Mexican dollar (silver) purchased on the letter of credit on Hongkong 48.7 cents gold.

This shows the difference between purchasing the Mexican silver dollars in the United States and transporting them on a Government transport without cost for freight and purchasing the same dollar in Hongkong by means of a letter of credit, the letter of credit dollar costing 48.7 cents as against 47¼ cents in the United States. If these two dollars should then be paid out to employees of the Government at the Treasury rate of 45.4 cents, as then existed in the Navy, the loss to the Government would be 0.045 cent gold less on each Mexican dollar purchased in the United States, or a saving by transportation on a Government transport of 0. 0145 cent gold per Mexican dollar.

Third. On my arrival at Cavite an American silver dollar would obtain only $1.75 Mexican in the town of Cavite, and at the present time an American dollar will purchase at the bank at Manila only $1.96 in Mexican, whereas an American gold dollar will bring at the banks at this time $2 in Mexican money.

If the Government would take back for the use of the paymasters the American silver dollars and give gold in place of them then the American silver dollar would be worth the same premium that is obtained for the gold dollar.

At the present time the rate of exchange on a pound sterling is 2 shillings per Mexican dollar, or for £1 sterling there would be received 10 Mexican dollars. If the pound sterling cost $5 gold, as in the case of the letters of credit coming through the First National Bank of San Francisco, then the Mexican silver dollar being 47.2 cents, the loss to the Government is 0.028 cent gold per Mexican dollar.

This amount of money would pay a large amount of transportation and insurance shipping silver into this country.

The question does not seem to be that any American soldier, sailor, or civil employee should receive American gold, which is at par with the moneys of the world (because he does not get the par value), but the soldier, sailor, or civilian should be able to obtain in exchange for his gold, or in lieu of the same, Mexican silver dollars at the rate at which they can be purchased in the United States and shipped to these islands. Under the present conditions the banks in the United States make a commission at their end and the banks in these islands make another commission, making an extra cost to the Government. After having made these commissions off of the money furnished to the departments, other than the pay department, the soldiers are paid in gold and silver coins of the United States, which the banks take, giving only $2 Mexican for an American gold dollar.

I would recommend:

First. That Mexican dollars be purchased for current use in the Philippine Islands at the rate given each quarter by the Treasury Department, or at the rate Mexican dollars cost the Government delivered here.

Second. That sealed proposals be called for and obtained, both here and in the United States, for furnishing Mexican silver dollars for the use of the United States Government at this point, as is now done by all other governments using this kind of money in the Orient. Competition would thus be obtained by allowing the banks in the United States and those in this vicinity to compete for the business.

Third. That authority be given by law for keeping the accounts in Mexican currency until the use of United States currency has been firmly established, and that no consideration be given to such clerical details as difficulties in making changes and keeping accounts. All values must eventually accommodate themselves to the new currency, involving different rates of wages and cost of material.

Very respectfully,

J. W. Pope,

Lieutenant-Colonel and Chief Quartermaster, U. S. V., Chief Quartermaster.

Responding to the order of the military governor, the chief commissary made his report, which, addressed to the governor, dated May 11, 1899, was as follows:

Sir: In reply to your indorsement of the 25th ultimo, calling for a report as to the saving in expenses, etc., to the Government in the Philippine Islands which might be derived from certain fiscal arrangements proposed by the National City Bank of New York, I have the honor to report as follows:

As a disbursing officer of the Subsistence Department, United States Army, I have not as yet been obliged to use what is called the local currency of Manila, viz, Mexican dollars. Enormous amounts of United States currency accumulate from the subsistence sales depots in the Philippine Islands, and it is necessary to carry large sums on hand in the office safe for current expenses. No difficulty has been experienced in disposing of such funds when payments for purchases had to be made, the dealer being required to express the price of his goods in gold. In my letter to the Commissary-General of Subsistence, United States Army, inclosing estimate for funds for the six months ending December 31, 1899, I stated as follows:

"It is believed that checks on San Francisco and New York can be readily used here for all purchases and that no funds will be required in the local banks of this city; however, in the event that purchases in Australia, etc., may at any time become necessary, a letter of credit on London banks in pounds sterling has also been asked for."

For the large quantities of fresh vegetables received from San Francisco, checks on the assistant treasurer, United States, in that city, are given in payment when funds are to my credit there. If credit is exhausted, cash payments in gold are made and accepted. Payments for frozen meats, shipped from Australia, are made in sterling London exchange. For this purpose a letter of credit on London is obtained from Washington, and sight drafts are drawn direct by me on said letter.

From the standpoint of the subsistence department it can not be seen how the Government would be benefited by carrying Mexican dollars for the transaction of local business, thus enabling the banks to charge high rates of exchange on gold.

Very respectfully, your obedient servant,

D. L. Brainard,

Major, Commissary of Subsistence, U. S. V., Chief Commissary.

The only remaining report called for is that of the treasurer of public funds. Under date of May 15, 1899, that officer, in a letter addressed to the military governor, said:

SIR: I have the honor to submit the following report in compliance with instructions contained in your indorsement on the communication from the Secretary of the Treasury, dated March 3, 1899.

I am informed that when the exchange on money transferred from the United States to Manila is paid in New York or London the Manila rates are obtained by wire and the charges are based upon such rates. If this information is correct, no saving would result from having exchange paid in New York. As all transactions in public civil funds are in Mexican or Filipino silver, I am not sufficiently familiar with the subject to say whether or not it would be more convenient to have the exchange paid in New York or Manila. It would facilitate the transaction of public business if a subtreasury or United States depository were established here.

Very respectfully,

CHAS. E. KILBOURNE,
Major and Paymaster, U. S. A., Treasurer of Public Funds.

A careful review of this mass of correspondence and the different views expressed and an analysis of the information given, considered in the light of to-day, is interesting.

For instance, the letter of Mr. Stillman is correct in stating that methods then in vogue in conducting financial matters with "Army officers" was confusing. He was not correct in his allusions to "Navy officers," as will be hereafter explained. That fact probably accounts for the further fact that the Secretary of the Treasury did not refer the subject to the Navy Department for investigation, whereas the original letter from Mr. Stillman and the above correspondence then and ever since has been a part of the records of the War Department and are found in case 408, in the division of customs and insular affairs.

The Paymaster General's office, having to deal almost entirely with officers and men in the United States service, had no difficulty in its disbursements. The course outlined by the chief paymaster at Manila for assisting and protecting the men from expensive exchange and losses thereby won for him the gratitude of all concerned except the local banks.

The recommendation of the Quartermaster-General that the subject be referred to the commanding general in the Philippines proved to be a wise course, as it brought out the true conditions as they then existed, although it turned out that the remedy proposed by some of the officers was not the proper one. For example, the suggestion of the chief quartermaster

"that Mexican dollars be purchased for current use in the Philippine Islands at the rate given each quarter by the Treasury Department,"

and the further suggestion that

"no consideration be given to such clerical details as difficulties in making changes and keeping accounts," proved to be a recommendation that when put into actual practice gave rise to most of the trouble growing out of the situation there. The circular issued by the Treasury Department will be referred to hereinafter.

The chief commissary appeared to have established a rule requiring all parties dealing with him to reduce their claims to American money themselves, thus avoiding much of the confusion that existed elsewhere.

The treasurer of public funds keeping his accounts in "Mexican and Filipino silver" of course had no special trouble to contend with.

All unite in the suggestion that a Government depository is not only desirable but a necessity.

July 29, 1899, by indorsement of the Assistant Secretary of War, the entire matter was forwarded to the Secretary of the Treasury. On the same day that the foregoing papers were sent to the Secretary of the Treasury by the Acting Secretary of War there was received from the Secretary of the Treasury the following:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
Washington, D. C., July 27, 1899.

To the honorable the SECRETARY OF WAR.

SIR: I have the honor to transmit herewith a communication dated the 22d instant from the Postmaster-General, inclosing a copy of a letter from Mr. F. W. Vaille, director of posts of the Philippine Islands, two clippings from Manila papers relative to the value of currency in Manila.

Respectfully, L. J. GAGE,
Secretary.

The letter from the Postmaster-General referred to was as follows:

OFFICE OF THE POSTMASTER-GENERAL,
Washington, D. C., July 22, 1899.

The honorable the SECRETARY OF THE TREASURY.

SIR: I have the honor to inclose herewith, for your consideration, copy of a letter from Mr. F. W. Vaille, director of posts of the Philippine Islands, relating to the confusion and complication of the currency under the conditions which now prevail at Manila. It is accompanied by an article from the Manila Times, to which it refers, and also by an article from another local paper on the same subject.

Very respectfully, C. EMORY SMITH,
Postmaster-General.

The letter from Director F. W. Vaille referred to was as follows:

MANILA, *June 9, 1899.*

Hon C. EMORY SMITH,
Postmaster-General, Washington, D. C.

SIR: I inclose for your information a copy of the Manila Times, probably the most substantial paper here, containing an editorial on Manila currency problems.

The article is very readable, and the subject is one of great interest to the people here. As the matter now stands, our money is neither flesh nor fowl, neither gold standard nor silver standard.

The final solution of the question will be the outcome of hard study; but it seems to me that it is possible for the Government to take immediate action that will have a tendency to prevent the present outrageous depreciation in our own money by the Manila banks, and, in consequence of the action of the banks, by merchants in Manila. Although the United States is administering the affairs of these islands, the money issued by the United States is not accepted in payment for customs duties, or, I understand, internal-revenue taxes. It thus appears that we are, in a measure, discrediting our own money.

At the post-office our money is taken at par, and the Spanish currency at the prevailing rate as fixed by the Navy, not at the rate fixed arbitrarily by the Manila banks.

At present we receive these coins at 47 cents on the dollar in small quantities, and, where the amount is large, at 0.472.

While the Spanish laws still apply here and the peso is the unit, it would be proper and right, it seems to me, to provide for payment of all duties, taxes, etc., in United States coin, if desired, at the rate fixed for guidance of naval paymasters—0.472 in our money for every peso due.

This would prove our faith in ourselves, and would to a great extent block the game of the banks. At present it is their practice to fix the rate of exchange to suit themselves. At the time the soldiers are paid, when there is a demand for Mexican silver, the banks raise the price of it.

I write this for your personal information, knowing that you will be interested in anything that concerns our interests here.

Very respectfully,

F. W. Vaille,
Director of Posts.

The article from the Manila Times referred to is as follows:

For perversities, complexities, difficulties, and impossibilities, Manila is one of the most wonderful places on the face of the earth, and it would seem that all the natural cussedness of the climate and all the artificial eccentricities of the place and people are concentrated in the currency. It was bad enough in the old days, and it seemed as if it could not be worse, but now, for our sins, we are given practical proof that it could be worse, for it is. Under the Spanish rule Philippine currency was an extremely mixed-up affair, so mixed up that it constituted the study of a lifetime, and various people who devoted their lives to the study of it used to make money out of it at the expense of the people whose time was otherwise occupied. Sometimes a peso was a peso, and sometimes it was a problem in fractional equations; sometimes the Filipino dollar was a Mexican, and sometimes a Spanish dollar was a Filipino; sometimes there was a gold currency without any gold, but at all times and under all circumstances the banks, exchange brokers, and a few clever Chinese and others managed to juggle with the fluctuations in change and currency legislation so as to score always.

Copper also was an intricate puzzle as maddening and exasperating as any "fifteen puzzle" or any of the trick things that are sold for amusement and drive people mad. Nominally, the coins in actual circulation were the peso, value 100 cents, the peseta, value 20 cents, and the half-peso and half-peseta and the cent. In actual practice it is customary to regard all small amounts in reales quartos. The man who has any shopping to do requires to take three-quarters of his time figuring out how many reales there are in a peseta, and how many quartos there are in a cent, and what is the meaning of such things as quatro y ocho, or 4 reales and 8 quartos, how much does that pan out in existing coin? Thus again, some copper coins are 2 cents, some 1 cent, some are a cent and a quarter, and some are more like disorganized trouser buttons than anything else. So, if you get into a street car and pay the man 10 cents American, the fare being 2 cents Filipino, puzzle: What do you get in change?

This last sentence brings up the crowning complication. If the currency was a puzzle before the Americans came, what is the present meaning of the word "dollar?" There is no rule or law to decide what is a dollar, whether a dollar is $2, or whether it is $1.90, or whether it is 50 cents or what it is. There is no currency law; there is supposed to be some mysterious system of calculation known only to bankers and bimetallic experts, whereby the lucky owner of a dollar loses 2, 3, 4, or 5 cents every time whatever it is. It is all right of course and very wonderful, but currencies ought not to be in the category of "wonderful," they ought to be plain and straightforward. The authorities ought to give the public a currency of some sort instead of leaving the Philippines at the mercy of exchange fluctuations in Hongkong or Singapore. There is no declaration that anything is legal tender. There ought to be. This, at any rate, is one of the things that governments are for. In absence of a law the currency question in Manila is ruled by the banks, and the banks are controlled, not by the requirements of Manila, but by the conditions in China, or India, or Europe, or any part of the world rather than the Philippines. We are not blaming any one for this. Big banks having a big business in all the principal silver-using countries of Asia can not upset their system and alter their arrangements for the sake of a small out-of-the-way place like Manila; they have to consider practically Asia and Europe, and the peculiar circumstances of Manila do not materially affect Asia and Europe in the matter of currency. Now, throughout silver-using countries silver is only worth its weight in metal; it is only in gold-currency countries that a piece of silver has a face value different from its intrinsic value as metal. Thus, the banks being compelled to conduct their business in a hundred different ports on one uniform system as a homogeneous whole, have to take silver merely as metal; that is to say, as a commodity whose value fluctuates from day to day, as much as a barometer. Thus it happens that people who have American silver dollars usually lose on them, because they are not made legal tender by any notification having the force of law. If they were made legal tender it would settle the question at once, and until the question is settled there will be incessant trouble and ill-feeling among the soldiers, whose pay is due them in gold dollars, while they usually receive it in silver, which they can not compel anybody to take as the equivalent of gold. Practically it means that the soldiers are being deprived of a percentage of their pay, not for anybody's benefit, but simply through force of circumstances in the absence of a currency law.

These matters were, as a whole, forwarded to the Secretary of the Treasury by an indorsement made thereon by the Acting Secretary of War.

Before either of the two foregoing references could be returned by the Secretary of the Treasury another case arose along the same lines, growing out of the following letter from the treasurer of public funds at Manila. It was as follows:

Office of the Treasurer of Public Funds,
Manila, P. I., August 19, 1899.

To the Secretary to the Military Governor in the Philippines.

Sir: The rules and instructions to carry into effect the Executive orders relating to the military government by the United States in the islands of the Philippine Archipelago and the island of Guam, dated War Department, May 11, 1899, provide that the accounts of the treasurer shall be kept in the money of the United States at the true valuation. The true valuation I suppose to mean the rate issued quarterly by the Treasury Department, fixing the value of the Mexican dollar in United States coin, which rate differs from the local rate of exchange prevailing in the banks of Manila, Hongkong, and other cities of this coast. If all accounts are to be kept in the United States currency, the gold standard will be established here so far as Government business is concerned. This will lead to complications in rates of exchange, and apparently to losses by the United States and to citizens dealing with the military government in the Philippines. It can not be expected that the rates of exchange between gold and Mexican silver fixed by the Treasury Department will be accepted by the local banks.

The present buying price of United States gold currency at the banks is 2.01 Mexican, although a somewhat better price can be obtained when the amount of gold to be sold is large. The value of the Mexican dollar, as fixed by the Treasury Department for the present quarter, is 4.81 which makes the value of the gold dollar 2.079 Mexican. As the customs, internal-revenue, and other dues are now based upon Mexican silver, an approximate loss of from 5 to 6.9 per cent will occur if the money received is to be deposited with the banks now authorized as depositories at a gold valuation based upon the United States rates. If the banks designated as United States depositories will keep a supply of gold on hand sufficient for the needs of disbursing officers, and will pay checks upon them in gold without charging exchange, no further loss will occur so far as the United States is concerned; but the individual paid will have to exchange his United States gold for local currency and the banks will charge him for the exchange, and this will probably, and justly, lead to increased charges by persons doing business with the United States Government. If Mexican silver or Filipino currency is deposited at its value in United States currency at the designated rates it will be necessary for the banks to purchase gold with which to honor checks, and for this they will probably demand exchange, or they will pay the checks in Mexican or Filipino currency at the local rates, thus working an injustice to the holder of the gold check. At present the accounts in the banks are kept in the Mexican or Filipino standard, and bills and contracts are paid in that currency. If all accounts are to be kept in United States currency, purchases, contracts, and bank accounts will have to be in the same currency. There is on hand at the present time approximately $2,500,000 Mexican belong to the public and siezed fund. To convert this to its equivalent in United States currency at the rate fixed by the Treasury Department will cause a loss of $125,000 Mexican at the present local price of gold, the difference in the United States and local rates for silver being taken at 5 per cent, which is as small a difference as can be counted upon.

In view of the fact that the entire business of these islands and of the surrounding countries is based upon the silver standard, and the loss to the Government and the confusion in business which will probably occur by suddenly adopting the gold standard for all Government business, it is recommended that the present silver standard be maintained and the accounts kept as at present until due warning can be given of the proposed change to the public.

Very respectfully, CHAS. E. KILBOURNE,
Major and Paymaster, U. S. A., Treasurer of Public Funds.

The letter bore the following indorsement by General Otis:

OFFICE OF THE MILITARY GOVERNOR IN THE PHILIPPINES,
Manila, P. I., August 21, 1899.

Respectfully forwarded to the Adjutant-General of the Army.

The difficulty which would result in attempting to introduce the gold standard as the monetary basis for Treasury transactions is clearly set out in this communication.

All duties, taxes, etc., are payable in the currency of the country, and an attempt to make these revenues payable in gold would result in financial disturbance with widespread indignation and resistance, for the native could not comprehend any argument in its favor, but would look upon it as an additional tyrannical act of the United States.

Again, an attempt to collect duties on a gold basis would result in confusion as to the amounts, since they would vary daily, dependent entirely upon the market price of silver.

To direct the treasurer to receive payment in the currency of the country, and thereupon to convert the money received into gold, would be attended with all the disadvantages and expenditures herein clearly explained. At the present time we receive all payments in the currency of the country, make all deposits and carry balances in that currency, and make contracts and pay out all revenues in that currency. Hence the daily market fluctuations in the price of silver exert no influence.

A change from this method of procedure would result in such grave consequences that unless future and positive instructions to make such a change are given by the War Department the course hitherto pursued will be continued, for the present at least.

E. S. OTIS,
Major-General, U. S. V., Military Governor.

The foregoing letter was referred to the Secretary of the Treasury for an expression of his views (see p. 6, card 408), and it was returned October 30, 1899 (see inclosure 24, card 808), as follows:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
Washington, October 30, 1899.

The honorable the SECRETARY OF WAR.

SIR: I have the honor to return herewith certain correspondence and reports submitted by the War Department relating to the use of American and Mexican money in the Philippines and to the credits authorized for transacting the business of the United States.

It would seem advisable at the present time that the accounts of moneys received from duties, taxes, etc., by the military government of the United States in the Philippines should be kept in the currency of the country, the Mexican standard, as suggested by the treasurer of the public funds at Manila, and by the military governor in the accompanying papers.

As to the credits authorized by the Treasury of the United States in Manila for disbursing officers of the War Department, they are credits in gold or its equivalent, and should be accounted for as such. Even if, as is understood to be the case, the banks pay the officers' checks only in Mexican dollars at the rates of the day of the transaction, it is not seen how the Treasury Department could change this situation. Notwithstanding this necessary conversion of moneys, it would appear a simple matter for the disbursing officers to keep their accounts in gold values, and the loss or cost of such conversion, or the gain or profit, if such there be, can be accounted for and fully explained upon their books and accounts.

It is regarded by this Department as a very doubtful experiment to undertake to avoid the bank rates in Manila by independent purchases of Mexicans in Hongkong or elsewhere, and one not to be recommended.

On credits in the United States the disbursing officer issues his checks for full gold value, which it is thought have been well received by creditors in the Philippines, and have proved in the main satisfactory. If the discharge of an obligation in Mexicans becomes necessary, however, it can be done through the banks by conversion of the checks drawn on the United States into Mexicans, the disbursing officer taking credit for whatever loss may be incurred in the transaction.

Respectfully,

L. J. GAGE, *Secretary.*

It will be observed that the Secretary of the Treasury makes no reference to the Quarterly Circular issued by that Department, and does not suggest that it be considered as a basis of settlement of accounts; on the other hand, it is clearly stated that disbursing officers shall take credit in their accounts when dealing in Mexicans with "whatever loss may be incurred in the transaction."

The above letter was referred to the Paymaster-General and Quartermaster-General for remark, who replied as follows:

Under date of November 22, 1899, the Paymaster-General said:

I quite agree with the honorable Secretary of the Treasury that it would be a mistake to attempt any change in the method of accounting for any of the authorized credits by the Treasury of the United States in Manila for disbursing officers of the War Department. As far as the Pay Department is concerned, the conditions are such now that our business is being conducted without friction and, it would seem, with the least possible expense to the Government. And it is all conducted on the basis of our American currency; that is, on the gold basis.

Early in the month of September there was received in the office of the Paymaster-General a copy of the report of the chief paymaster, Division of Pacific, for the year 1899, from which it seemed that he had not made any exchanges on New York or San Francisco credits for funds; and whereas this department had shipped to Manilla (in gold, silver, and bank notes) currency to the amount of nearly $8,000,000, none of this money had come back into the hands of the chief paymaster for disbursement, excepting such as was required by officers and soldiers for exchange for themselves, from the army paymaster's collections, and from the post-office funds. These items amounted to about 33 per cent of the amount disbursed. As will be seen by the report of Major McClure, contained in these papers, he has stated that checks on the assistant treasurers in New York and San Francisco were in demand by merchants and others in Manila, and asked for authority to use them. Although he had such authority, necessarily by virtue of his position and duties, I immediately telegraphed him to give such exchange to all parties from whom he might obtain American currency, and added that in cases of banking institutions wishing to transfer money to New York the exchange could be effected by cable. After consultation with the honorable Secretary of the Treasury and the assistant treasurer, New York, I arranged this method of transfer (the ordinary banking system of transfer by telegraph). In reply to this cable the chief paymaster cabled: "This will raise the value of our currency here 2 per cent at once." Since that time he has received from the banks in Manila $635,000 in American currency, for which we have given them credit in New York.

From correspondence with the chief paymaster in Manila and from interviews with officers returning from Manila, it would seem that there is no difficulty whatsoever, no hardships, and no expense to officers and soldiers connected with their payment in American currency. The banks in Manila fix the rate of exchange from day to day, and the men and officers take their American currency to the banks and exchange such portions of it as they wish to use locally at the current rate.

As our occupation continues longer and our money becomes more familiar to the people, with the continued employment of free exchange on New York as now established, I am of the impression that the value of our currency there in local currency will increase; and I have reason to believe, from the experience of the past two months, that the amounts of money which it will be necessary for us to ship for our business in the Philippines will continually decrease.

I am not disposed to recommend the purchase of Mexican dollars to be sent to the chief paymaster, and I think it would be better in every way to leave the problem to solve itself, which it seems to be doing in a very satisfactory manner.

The Quartermaster-General replied briefly as follows:

Respectfully returned to the honorable the Secretary of War with remark that for some time past funds called for by the chief quartermaster in Manila have been placed to his credit in the subtreasuries in New York and San Francisco, and no complaint having been received, it is believed that method is working satisfactorily.

The foregoing correspondence originated, as will be seen, in the letter from Mr. Stillman, president of the National City Bank of New York, dated March 2, 1899, and it took until November of that year to complete its consideration.

By General Orders, No. 65, issued under date of April 10, 1899, and at a time when the Stillman correspondence was on its way to the Philippines, the Acting Secretary of War appears to have anticipated the final recommendation to be made after a full consideration of all the views expressed and to be expressed thereon. The order was as follows:

HEADQUARTERS OF THE ARMY,
ADJUTANT-GENERAL'S OFFICE,
Washington, April 10, 1899.

By direction of the Acting Secretary of War, the following is published for the information and guidance of all concerned:

Paragraph 635 of the Regulations requires that the money accounts of disbursing officers of the United States Army shall be rendered in terms of dollars and cents and to secure uniformity in the preparation and rendition of their accounts the following illustration of the method of stating the value of foreign silver or gold in the islands now occupied by the United States forces is published:

The accounts, whether for purchases or services, will be stated in the currency under which the indebtedness is incurred, i. e., foreign silver or gold or United States currency.

If the agreement calls for either foreign silver or gold the account shall be stated in those currencies, respectively. When in silver, the total amount will be reduced to its equivalent in the gold currency in use in the country in which the indebtedness is incurred at the rate of exchange which may govern at the time, and from this gold currency into United States currency at the current rate of exchange at the date of payment. If the account is stated in the gold currency in use, but the one reduction—into United States currency—will be necessary.

The amount in United States currency having been arrived at, authority is hereby given for checks to be drawn therefor by disbursing officers to their own orders in United States currency and by them exchanged at local fiscal agencies of the United States where possible, or at local banks, for the necessary amount in the coin required to pay the creditor in the money originally agreed upon, and authority is hereby given for such exchange where the creditor declines to accept check payable in currency of the United States.

The vouchers for accounts will be made to show the debt as actually incurred, in the coin in which payment is made, and the reduction from this coin to United States currency, the rate of exchange being stated on the voucher, and the amounts stated on abstracts and account current in United States currency, as prescribed by paragraph 635 of the Regulations.

Attention is called to the provisions of General Orders, No. 22, February 3, 1899, from this office, relating to the functions of fiscal agents of the Government of the United States.

Examples illustrating this method of payment for purchases and services are shown herewith as forms A, B, C, and D.

By command of Major-General Miles:

H. C. Corbin, *Adjutant-General.*

The examples, among other things, show the following:

John Doe, laborer, 15 days, at $1 per day	$15.00
Richard Roe, laborer, 24 days, at $1 per day	24.00
John Smith, laborer, 1 month	32.00
Total in Spanish silver	71.00
Which being reduced to Spanish gold at 68, is	48.28
Which being reduced to United States currency at rate of exchange this day (1.08), is	44.70

Amount in United States currency alone carried to abstract and account.

The foregoing order has not been rescinded, and is still in force.

About the time the foregoing correspondence was going on, and about the time the last-mentioned order was issued, a very interesting examination was being conducted in Manila, under the supervision of the Philippine Commission, at which prominent merchants, bankers, and others were being interrogated as to financial matters in the islands. From the mass of such evidence contained in the report of the commission we glean the following from volume 2:

Mr. William A. Daland, a broker of ten years' experience in various parts of the Philippines, said, in substance:

When I first came to the island nearly twenty years ago the currency was gold. It has gradually declined until now it is silver. This was brought about by the exportation of gold and the poverty of the Spanish Government, who never have been able to restore it to a gold basis. In my opinion a change back again at this time would turn the entire business of the Philippines upside down, and all the country round about us. China and Shanghai and all around us are on the basis of the Mexican dollar (silver), and it would bring about a complete paralysis of trade. Things all along the coast are on the same basis.

Speaking of the feasibility of a local or Philippine dollar he said:

Spain sent out here some three or four years ago what they called a peninsular dollar; it was all right in the Philippines themselves, because Spain in the meantime prohibited the entrance of the Mexican dollar made later than the year 1877. That condition lasted up to August, 1898.

Mr. Charles I. Barnes, a partner in the firm of Warner, Barnes & Co., exporters, and formerly manager of the Hongkong and Shanghai Bank at Manila, said in part:

I have lived here twenty-four years. When I first came here gold currency was the basis, but there was also at the same time a silver dollar in circulation, and as the Spanish Government never limited the circulation of the silver dollar at that time, to any material extent, in course of time a lower value of currency gradually replaced the gold. In my opinion the silver currency best suits the people. They have had it now for about ten years, and substantially nothing else in that time, until now the natives are used to it. It appears to suit the country better, and it would not be of advantage to go back to gold at this time. * * * My opinion is that there can be no better currency for these islands than the Mexican dollar, unless the United States cares to coin a dollar of the same weight as the Mexican dollar and allow it to circulate at its value.

Mr. H. D. C. Jones, in charge of the Hongkong and Shanghai Bank, said, among things:

As far as the currency is concerned, of course we are virtually on the Mexican-dollar basis now, since General Greene with the Americans came here in August last. General Greene, on the very strong recommendation, or rather the petition, of the majority of the merchants and bankers—or rather General Merritt; General Greene acted for him—gave us the permission to import Mexican dollars to an unlimited amount, on a kind of an arrangement which was not written down. He told us if we would consent to supply the soldiers with Mexican dollars in exchange for gold he would give us a verbal promise that, in the event of the American Government going into the question of currency, and deciding to have a gold currency here, he would allow us to cover ourselves—that is, to import an equivalent amount of Mexican dollars to the amount of gold we bought. For example, suppose the American Government to-morrow said, We will stop the import of Mexican dollars. I would say, I have so much gold in London, and I ought to be allowed to import an equivalent in Mexican dollars to the gold I have in London—that is to say, the uncovered amount. The native would gain no advantage by the return to the gold standard at this time. Later on, when he gets more educated, uses more labor-saving machinery, and can export his produce at good, high prices, in years to come, he may get enough benefit out of the gold dollar to recompense him for giving over the larger amount of money—of dollars—he gets at present.

A large number of others were examined, but their statements would be but a repetition of the sentiments above expressed.

Under date of April 27, 1899, the State Department, by a letter addressed to the Secretary of War, opened up another important correspondence on this subject as follows:

Department of State,
Washington, April 27, 1899.

The honorable the Secretary of War.

Sir: I have the honor, by direction of the Secretary of State, to inclose for your information a copy of the advance sheets of the consular reports, containing a report from the consul at Manila, P. I., on the markets of that place.

I inclose also a copy of an extract from the report which was not printed, in regard to establishing a steady exchange at Manila.

The consul suggests that by making two Philippine silver dollars equal to one American gold dollar this result would be accomplished.

I have the honor to be, sir, your obedient servant,

Thos. W. Cridler,
Third Assistant Secretary.

The consular report referred to contained the following:

In old times gold money was used here to such an extent that silver was at 10 per cent premium. Later, gold was exported, and in 1883 already ½ to 1½ per cent premium was paid for it. When it was too late to keep gold here the Government prohibited the importation of Mexicans, and in 1887 joined to that law a decree according to which only Mexicans dated before 1878 had legal value. So our currency consisted of Mexicans of older date than 1878, of Spanish carolus and Spanish fernando dollars (no longer current in Spain, but legal here), and a great quantity of half dollars.

The exports of the Philippines have always been greater than the imports, and therefore the tendency of exchange was to rise continually, and money became scarcer and scarcer. So it happened that, the import of Mexicans being forbidden and no other money produced, premium on Hongkong went up to 14 per cent and more. Then some large sums were smuggled in and the premium went down again. During more than ten years our money market was adjusted by smuggling Mexicans from Hongkong.

In 1897 the Spanish Government minted Philippine dollars in Spain, which contained about 10 per cent less silver than the Mexicans, and sent several millions here. The public had to take these dollars at full value. We believe that all these light dollars are still in the country. The half dollar and 20-cent pieces which the Government minted never came to the full value of Mexican currency.

The extract from the unprinted report was the following:

The most important factor for a sure and sound import business is a steady exchange. If the country would get its own silver dollar and the United States would make it a rule that two Philippine dollars are worth one American gold dollar, we would all the year through have an exchange of a fraction over 2 shillings. That would be splendid, because we would have a gold basis without a dear gold dollar. With a real gold dollar our produce like hemp, sugar, etc., as well as labor, would become much dearer.

On May 3, 1899, a very important circular was issued by the War Department, which has in a measure controlled the question of value of money in the islands in so far as relates to the matter of valuation of merchandise for the purpose of assessing duties. It originated in a letter forwarded to the Secretary of War by the Secretary of State, wherein certain foreign consuls complained at the methods in vogue in determining the value of imported goods as fixed by rules then in force.

Article 15 of the Cuban tariff and article 15 of the Porto Rico tariff both read as follows:

15. For the assessment of duty the currency of the invoice must be reduced to the money of account of the United States upon the basis of the values of foreign coins as proclaimed by the Secretary of the Treasury on the first days of January, April, July, and October of each year. The date of the consular certificate will indicate the value of invoice currency.

The Secretary of State recommended that the rule be changed, that no consular certificates be required, and that the date of the invoice determine the value.

The matter was referred to the Secretary of the Treasury, and an extensive three-sided correspondence ensued between the Secretaries of State, Treasury, and War, which finally resulted in the following:

By card No. 87, inclosure 25, will be seen a letter from the Secretary of the Treasury, as follows:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
Washington, D. C., April 29, 1899.

To the honorable the SECRETARY OF WAR.

SIR: I have the honor to acknowledge the receipt of your letter of the 25th instant, with inclosures, requesting an expression of the views of this Department in advance of the report of Special Commissioner Porter, in regard to the certification of invoices for merchandise shipped from foreign countries to Cuba, Porto Rico, and the Philippines.

In reply, I have to state that inasmuch as the tariffs of those islands impose specific rates almost exclusively, and the duties are determined on the basis of the actual quantity of merchandise imported as ascertained by the customs officials after entry, this Department is unable to perceive any necessity for the requirement of consular certificates or other authentication of such invoices, and therefore recommends that articles 15 and 17 of the regulations for Cuba and Porto Rico and article 8 of the regulations for the Philippines may be amended to read as follows:

Article 15 of the Regulations for Cuba and Porto Rico:

For the assessment of duty the currency of the invoice must be reduced to the money of account of the United States upon the basis of the values of foreign coins, as proclaimed by the Secretary of the Treasury on the 1st days of January, April, July, and October of each year. The date of the invoice will indicate the value of the currency.

Article 17 of the Regulations for Cuba and Porto Rico, and article 8 of the Regulations for the Philippines:

The consignee named in the bill of lading, or the person to whom such consignee shall, by indorsement, have assigned the bill of lading, shall present to the officer duly designated for that purpose by the military authority his bill of lading, an invoice describing the goods, showing their character, quantity, and cost, together with an entry in duplicate showing the name of the importer and of the vessel of importation, the place whence the goods were imported, the date of their arrival at the port of destination, the marks and numbers of the packages, the nature and quantity of their contents, their value, including costs incurred in packing them for shipment, and the currency in which the invoices were made out. The invoice must be made out in the currency of the country of exportation, and need not be verified. The entry shall be signed by the importer, who must make affidavit to the truth of all the statements contained therein, and shall agree in value and description with the facts shown by the invoice.

Respectfully, yours,

O. L. SPAULDING, *Acting Secretary.*

On the 3d of May, 1899, the following tariff circular was issued by the Acting Secretary of War:

TARIFF CIRCULAR No. 62.

WAR DEPARTMENT, *Washington, May 3, 1899.*

By direction of the President, the Amended Customs Tariff and Regulations for the Ports in Cuba, Porto Rico, and the Philippine Islands are hereby amended as follows:

Article 15 of the Regulations for Cuba and Porto Rico is amended to read as follows:

For the assessment of duty the currency of the invoice must be reduced to the money of account of the United States upon the basis of the value of foreign coins, as proclaimed by the Secretary of the Treasury on the first days of January, April, July, and October of each year. The date of the invoice will indicate the value of the currency.

Article 17 of the Regulations for Cuba and Porto Rico and article 8 of the Regulations for the Philippine Islands are amended to read as follows:

The consignee named in the bill of lading, or the person to whom such consignee shall, by indorsement, have assigned the bill of lading, shall present to the officer duly designated for that purpose by the military authority his bill of lading, an invoice describing the goods, showing their character, quantity, and cost, together with an entry in duplicate showing the name of the importer and of the vessel of importation, the place whence the goods were imported, the date of their arrival at the port of destination, the marks and numbers of the packages, the nature and quantity of their contents, their value, including costs incurred in packing them for shipment, and the currency in which the invoices were made out. The invoice must be made out in the currency of the country of exportation, and need not be verified. The entry shall be signed by the importer, who must make affidavit to the truth of all the statements contained therein, and shall agree in value and description with the facts shown by the invoice.

This order shall be duly proclaimed and enforced in Cuba, Porto Rico, and the Philippine Islands.

G. D. MEIKLEJOHN,
Acting Secretary of War.

The original article 15, found in both the Cuban and the Porto Rico tariffs, was undoubtedly based on section 25 of the act of Congress of August 28, 1894, which reads as follows:

SEC. 25. That the value of foreign coin as expressed in the money of account of the United States shall be that of the pure metal of such coin of standard value; and the value of the standard coins in circulation of the various nations of the world shall be estimated quarterly by the Director of the Mint and be proclaimed by the Secretary of the Treasury immediately after the passage of this act and thereafter quarterly on the first day of January, April, July, and October in each year. And the values so proclaimed shall be followed in estimating the value of all foreign merchandise exported to the United States during the quarter for which the value is proclaimed, and the date of the consular certificate of any invoice shall, for the purposes of this section, be considered the date of exportation: *Provided*, That the Secretary of the Treasury may order the reliquidation of any entry at a different value whenever satisfactory evidence shall be produced to him showing that the value in United States currency of the foreign money specified in the invoice was, at the date of certification, at least ten per centum more or less than the value proclaimed during the quarter in which the consular certification occurred.

The provisions of the above section 25 do not appear in any form in any of the published tariffs of the Philippines. It will be observed that Tariff Circular No. 62, in referring to the article 15 amended by that circular merely names the article 15 "of the regulations for Cuba and Porto Rico." It does not appear that there existed any specific rule or regulation on that subject in the Philippine Tariff.

That it was the intent to make the same rule applicable to the Philippines is evidenced by the fact that on the same day, May 3, 1899, that Tariff Circular No. 62 was issued in Washington, cablegrams were sent to "Bliss, Habana," "Buchanon, San Juan," and also to "Colton, Manila," as follows:

Tariff amended. Consular certificates of invoices not required. Date of invoice will indicate value of currency. Invoice need not be verified.

MEIKLEJOHN.

An analysis of the cablegram shows the intent. So much of it as reads "Tariff amended; invoice need not be verified" applies to all three tariffs, namely, to sections 17 of Cuba and Porto Rico and section 8 of the Philippines; whereas the additional language, "Date of invoice will indicate value of currency," could only apply to the amendment to articles 15 of the Cuban and Porto Rican tariffs. The fact that the same cablegram was sent to all three officers clearly shows the Department intended to have the provisions of section 25 of the act of August 28, 1894, in its modified form apply to the Philippines as well.

It does not appear that such was the construction placed upon the cablegram by the officers at Manila, for it is seen in the revised and corrected edition of the Philippine tariff, published at Manila in General Orders, No. 49, has the following:

The following revised printed schedule of the same, which contains all amendments to September 1 last (1899), is published for the information and guidance of all concerned.

The "schedule" referred to contains the amendment to article 8, as promulgated by Tariff Circular 62, but omits all reference to Circular No. 62, and also omits all reference to the rule referring to the quarterly circular issued by the Secretary of the Treasury, fixing the standard of values of foreign coins as the basis of value of foreign merchandise. Whereas, in the edition of the Philippine tariff published in Washington by the War Department in 1899, Tariff Circular No. 62 is printed in full, section 8, as amended, appears therein, although there is no specific section stating that the provisions of the first amendment shown in Tariff Circular No. 62 shall apply to the Philippines, unless the publication of the circular taken in connection with the cablegram of May 3 is construed to put the same in force there.

If it be assumed that it was the intent of the War Department to have uniformity among the island customs regulations, it is also clear that it was not the intention of this Department that the provisions of section 25 of the act of August, 1894, should serve any other purpose in its adoption by Tariff Circular No. 62 than those expressly stated therein.

The first question arising touching the matter of exchange after the promulgation of General Orders, No. 65, dated April 10, 1899, and Tariff Circular No. 62, appears in card No. 808, originating in a communication from the Surgeon-General United States Army. Under date of June 8, 1899, that officer submitted to the War Department a request for "Instructions as to the exact rate of exchange in view of the United States currency sent him, and the current coin there being the Mexican dollar."

Had it been in contemplation that the spirit or letter of section 25 of the act of 1894 should in any degree control, the natural reply would be a reference to Tariff Circular No. 62.

The letter was inclosed to the Secretary of the Treasury with the following:

WAR DEPARTMENT,
Washington, June 8, 1899.

SIR: I have the honor to inclose herewith a letter from the chief surgeon at Manila, transmitted by the Surgeon-General United States Army, concerning the relative value of United States money and Mexican silver and other coin in use in the Philippine Islands.

Inasmuch as no ratio has been established between United States money and the current money in use in the Philippines, it would seem that, in order to furnish disbursing officers with a basis for computation in the rendition of their returns and in keeping their accounts and for general purposes, the rates of exchange should be established by publication in orders similar to those issued with reference to exchange in Cuba and Porto Rico.

It is desired that this Department be furnished with an expression of the views of your Department upon this subject, so that the necessary orders may be promptly drawn. The return of the inclosure herewith is requested.

Very respectfully,

G. D. Meiklejohn,
Acting Secretary of War.

The Secretary of the Treasury.

The letter inclosed was as follows:

Headquarters Department of the Pacific
and Eighth Army Corps,
Office of the Chief Surgeon,
Manila, P. I., May 5, 1899.

The Surgeon-General, U. S. A.,
Washington, D. C.

Sir: I have the honor to report that my predecessor, Lieutenant-Colonel Lippincott, transferred to me the funds remaining from his letter of credit, the same having been reduced to cash by authority of the department commander.

The original letter, issued in San Francisco, placed to his credit as chief surgeon $20,000 in gold. The bank maintained that its duty was to supply an equivalent value in the ordinary currency of the country. In this case the Mexican silver is the medium of commercial exchange. After consultation with financial officers, it seemed proper to accept the silver, the more as the bank insisted that it did not have nearly the amount of gold required, and that letters of credit were always satisfied in the currency of the country where presented. Thus, a London letter for so many pounds gold would be paid in India by silver to the value of the gold. I therefore accepted an order for $31,570, silver, which was equivalent to the gold balance, and redeposited it to my own credit.

I am, however, at some loss to know exactly how that amount should be drawn against, because the fluctuating value of silver is such that it will be practically impossible to retransfer it, either to the Treasury or to another officer, at the same rate at which I received it. Thus, a few days later silver appreciated so that as a commodity it was worth about $600 more than when deposited. It is equally or more liable to depreciate. Accounts of all kinds, except for contract nurses, are rendered in Mexican dollars, but I suppose that their approval should be in terms of the value in which the original amount is charged at the Treasury; but I have no official means to determine that equivalent. The acting medical purveyor certifies on the face of his accounts presented to me for approval what the bank allows him as the value, and I approve the silver account at the gold value; but that is not a very satisfactory procedure, although it represents the actual commercial parity of the two currencies at the time of the transaction. This is understood by the disbursing officers to be both equitable and legal. I am told that the Navy establishes a quarterly rate at which silver may be paid or received for gold, and I believe that information of the same nature is supplied from Washington to the quartermaster here, although his rate and the navy rate do not appear to correspond. No standard has been supplied the purveyor or this office, and I request instruction as to the proper course to pursue in this matter.

Besides the bank deposit referred to, I have in the paymaster's safe $3,518.34, public funds, in cash. Both sets of money, I presume, require to be turned in to the Treasury at the close of the fiscal year.

Please send by cable exact and complete instructions, especially if the funds must pass back to the Treasury June 30.

Very respectfully,

ALFRED A. WOODHULL,
Lieutenant-Colonel, Deputy Surgeon-General, Chief Surgeon.

It appears from the foregoing that the local banks at Manila are not disposed to make any discriminations. In other words, they treat a deposit by the United States through its chief disbursing officers just as they do an individual in the humbler walks of life, in that they do not accept or open gold accounts. If anyone opens an account with them, it matters not in what money the deposit is made, the account is made to represent so much money Mexican. This rule is the basis of the case now under consideration.

The communication from the Secretary of War was received by the Secretary of the Treasury and by him referred to the Director of the Mint June 12, 1899, "for recommendation and return." To which that officer replied as follows:

TREASURY DEPARTMENT, BUREAU OF THE MINT,
Washington, D. C., June 14, 1899.

To the honorable the SECRETARY OF THE TREASURY.

SIR: I have considered the inclosed letter from Hon. G. D. Meiklejohn, Acting Secretary of War, dated June 8, with the accompanying letter from the chief surgeon, Manila, P. I., dated May 5, 1899, relative to the variations in the value of the local currency at Manila compared with gold.

It would be impracticable to undertake to establish a fixed par of exchange between gold and the Mexican dollars which constitute the medium of exchange at Manila, for the reason that there is no limit to the supply of Mexican dollars. The situation is different in this respect from that in Cuba and Porto Rico, where the supply of local currency is limited.

It would seem that the best policy for disbursing officers in the Philippines to pursue would be to keep their funds, if practicable, in gold credits, converting them into Mexican dollars only as they have payments to make. By this policy their balances would always be in gold. Then if the chief surgeon had a payment of, say, $500 to make in Mexican silver he would draw on his balance enough to yield that sum and make his accounts show the payment of $500 in silver, costing so much in gold.

In the case stated the disbursing officer has converted his entire credit, and if he is obliged to return his funds to the Treasury at the end of the fiscal year he will have to reconvert it. If the rate is not the same as when the first conversion was made, his accounts will fail to balance and will have to be adjusted by charging or crediting the difference to exchange or as may be directed.

In the case of navy disbursements, to which reference is made in the chief surgeon's letter, I understand the practice to be as follows:

The disbursing officer follows in his accounts the valuation given to the foreign coin in the last circular of the Bureau of the Mint. This circular is issued quarterly and the Navy Department cables the values fixed to the commandants of its fleets; but the drafts drawn on London can not be converted according to the circular, for this rate of exchange may vary daily. The paymaster charges himself with the actual proceeds of the draft, and the differences between the actual proceeds and the nominal value at the circular rate is debited or credited to exchange. The paymaster carries his account in United States money, converting the amount of each voucher into terms of our money at the rate fixed in the last circular. When a new circular comes out, the cash on hand is revalued at the new rate, the difference debited or credited to exchange.

Evidently it would be advantageous to carry no balances in foreign money, but draw at regular intervals, or as may be required, just what is needed for immediate payment.

Doubtless arrangements with banking houses can be made to that end—if not by the disbursing officers themselves, by the Department.

Respectfully, yours, Geo. E. Roberts,
Director of the Mint.

The papers were then forwarded to the Auditor for the War Department, who in turn referred them to Mr. Martin, chief of the military division of the Auditor's Office. That officer on June 23, 1899, prepared and submitted the following indorsement to the Auditor:

Respectfully returned to the honorable the Secretary of the Treasury. In my opinion a ratio between United States money and the money current in the Philippine Islands should be established for the guidance of disbursing officers in those islands. The fact that such ratio has not been established has led to some confusion in accounts rendered to this office, and in some cases it has become necessary to return accounts to disbursing officers for correction.

It is the practice of this office, under the statutes, to require all accounts to be rendered in United States money.

It is suggested that, if thought expedient, this question be referred to the Comptroller of the Treasury, under section 5 of the act of July 31, 1894.

The inclosure referred to did not accompany this paper when it reached this office.

This proposed indorsement was not approved by the Auditor. It is presented here for two purposes; first, it shows that the subject-matter of this inquiry is one which is causing some difficulty in that branch, and, second, it is an expression in favor of some solution of the question rather than letting it rest as it now stands.

On June 24, 1899, another indorsement was arranged and made as follows:

Treasury Department,
Office of the Auditor for the War Department,
June 24, 1899.

Respectfully returned to the honorable Secretary of the Treasury.

It is the practice of this office, under the statutes, to require all accounts to be rendered in United States money.

General Orders, No. 65, Headquarters of the Army, Adjutant-General's Office, Washington, D. C., April 10, 1899 (copy herewith), was issued with the knowledge and verbal sanction of this office and seems to cover all the points in the question at issue. If disbursing officers in the Philippine Islands will keep all their credits in United States money and be governed strictly by the provisions of General Orders, No. 65, in their disbursements, I see no reason why results can not be satisfactory to this office. All the papers are returned herewith.

Dan. A. Grosvenor, *Acting Auditor.*

The two papers were then considered by the Secretary of the Treasury, and from the two the following was forwarded under date named:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
Washington, D. C., June 27, 1899.

To the honorable the SECRETARY OF WAR.

SIR: I have the honor to acknowledge the receipt of your communication of the 8th instant, transmitting a letter from the chief surgeon at Manila, Philippine Islands, relative to variations in the value of the local currency at Manila compared with gold.

In reply I have to state that it would be impracticable to establish a fixed par of exchange between United States money and the Mexican dollar, which constitutes the medium of exchange at Manila, in view of the unlimited supply of Mexican dollars, and that it seems to this Department that the confusion of accounts complained of by the chief surgeon as a result of fluctuations in the value of silver will be obviated if the disbursing officers of your Department in said islands shall keep their credits in money of the United States and be governed strictly by the provisions of General Orders, No. 65, of April 10 last, in their disbursements.

The inclosures of your letter are herewith returned.

Respectfully, yours,

L. J. GAGE,
Secretary.

The differences in the account were thereafter adjusted and due allowance made for the matter of depreciation.

By the above it would appear that the rule was established that the formula system promulgated in General Orders, No. 65, of the Adjutant-General's Office, issued in April, 1899, is the proper one to be invoked in adjusting all accounts wherein the question of difference in value of money may occur, as between the War Department and the Auditor. It is clearly to be seen that it never was in contemplation that the basis of value fixed by the quarterly circular issued by the Treasury Department was to govern in settlements by officers of the United States Army in any branch.

General Orders, No. 30, from the office of the United States military governor in the Philippine Islands, dated July 22, 1899, provides for a government of the island of Negros, establishes offices, and fixes salaries for the officers. The salaries are fixed in "Mexican currency."

By General Orders, No. 38, dated August 22, 1899, a new "Schedule of postal rates" was issued. The postage is stated in "cents," but there is no direction as to what currency is intended. Four rates are named: Foreign, applying "Postal Union conditions," usually "local money" at "local rates;" rate to the United States—ordinary letter postage in force in the United States; Philippine Island rate, that is, to any point "in the Philippine Islands" at 1 cent for each half ounce—just one-half the regular rate in this country; then the local rate "at the office of mailing"—1 cent, or half the United States rate, for first-class matter.

August 28, 1899, an important question was presented and considered bearing upon this now interesting question.

It originated in the following letter:

AGENT FOR THE HONGKONG AND SHANGHAI BANKING CORPORATION,
50 Wall Street, New York, August 28, 1899.

HON. LYMAN J. GAGE,
Secretary of the Treasury, Washington, D. C:

This bank being appointed a Government depository for the Philippines, I am anxious to be of service in simplifying and economizing the financial business in that direction.

In the matter of providing funds for United States expenses in Manila from this side, the following methods appear to be in use:

First. Shipping United States gold and notes.

Second. Arranging credits under which officials can draw on London or American bankers.

Third. Authorizing officials to draw on United States Treasury at Washington, or subtreasuries at New York or San Francisco.

On these methods I would submit the following remarks:

First. This method involves expense and risk of loss to the Government, and certainly a loss to the recipients, as they have to sell the American money for what it will bring in local currency, and the buyers have to cover the expense of returning it to America.

Second. This method involves the expense of a commission to the credit-issuing bank.

Third. This is the method I would suppose would commend itself to you, as it has the following advantages:

The Treasury pays out no money till the officers' drafts are presented at the Treasury.

No expense or commission is incurred.

The Treasury drafts command the best rates of exchange.

And finally, the business is conducted by your own officers.

If this third method is used, I would further suggest that it would be most convenient and economical if all drafts were directed to be drawn on the subtreasury at New York, as by so doing the best rates of exchange are secured, and it doubtless would be a convenience to have the business centered here.

It would further be desirable, if in accordance with Treasury usage, that any credits opened by the Treasury authorizing officers to draw in Manila should be at the same time advised to us, either by the Treasury at Washington or by the subtreasury here, which advice I would transmit to my agent in Manila, either by wire or by mail, as desired, free of all charge.

As I am uncertain whether this letter should be addressed to you or to the Secretary of War, I beg to inclose a copy of it, which I would ask you to hand to the Secretary of War, if you think proper, with any comments necessary.

I am, yours, very respectfully,

A. M. TOWNSEND, *Agent.*

The letter bears the following indorsement:

Respectfully referred to the Secretary of War as being clothed with the proper jurisdiction. It is the opinion of the Secretary of the Treasury that the writer of within is correct in emphasizing the third proposition as the most safe and desirable to the extent practicable.

L. J. GAGE, *Secretary.*

AUGUST 29, 1899.

Upon its receipt by the Secretary of War it was referred to the Quartermaster-General and the Paymaster-General for reports. The first-named officer indorsed it as follows:

QUARTERMASTER-GENERAL'S OFFICE,
Washington, September 7, 1899.

Respectfully returned to the honorable the Secretary of War through office of the Paymaster-General of the Army, with remark that the second method or letter-of-credit system is the one under which officers of this Department in Manila have mainly been supplied with funds.

If by the third method is meant that checks drawn against funds placed in subtreasuries to the credit of disbursing officers in the Philippines will be paid by the Hongkong and Shanghai Banking Corporation, without expense, as stated within, then that method would be the most desirable.

That the banks can do this is owing to the fact that exchange is at present in their favor.

The placing of funds of this Department in the subtreasuries is deemed preferable to the letter-of-credit system, and it is thought the subtreasuries at New York and at San Francisco should both be used.

Officers should, it is thought, have balances to their credit in San Francisco upon which to draw in favor of creditors on the Pacific coast, or those in Manila who might wish to present them for payment in San Francisco instead of having them cashed in Manila.

M. I. LUDINGTON,
Quartermaster-General, U. S. A.

The Paymaster-General indorsed it as follows:

Respectfully returned to the honorable the Secretary of War.

I fully agree in the above indorsement of the Quartermaster-General regarding the third method suggested. Before the official notice of the authorization of this banking corporation as a depository for the funds of the United States I had instructed the chief paymaster in Manila to arrange to get all the American coin that he possibly could in exchange for checks drawn on the assistant treasurer San Francisco or New York.

This department has already sent to Manila $7,105,800 in currency. Colonel Tower will leave San Francisco with $1,551,000 more on transport sailing about the 15th, making a total shipment of currency (gold and silver principally) of $8,656,800. If this money can be kept in the island it will go far toward supplying them with all of the money necessary for the current business in which the United States is a party; the balance of the currency in circulation there being principally Mexican dollars.

If this bank will keep on hand and be prepared to furnish the money that will be needed for this department from month to month, amounting to somewhere in the neighborhood of $800,000 or $900,000, the Government will be saved the expense and risk of transmittal of these large sums of money, and the bankers and merchants the corresponding risk and expense of sending it back. The only question arising in my mind is one that must be determined, I suppose, by the balance of trade, viz, the value of our exchange. This bank will undoubtedly be willing to do this as long as the exchange is in their favor, but in case the balance of trade is such that the exchange is against them, they should be held responsible for still furnishing us with money. It takes from six weeks to two months for an officer there to make a requisition for funds and have it placed as we are now placing them; and this department would not like to be responsible for the approval of any plan which could lead to a failure in the payment of troops in the Philippines.

A. E. BATES,
Paymaster-General, U. S. A.

The main letter was then answered by the Secretary of War, as follows:

War Department,
Washington, September 11, 1899.

Sir: In reply to your letter of the 28th ultimo concerning your proposed plan for simplifying and economizing the transfer of funds to the Philippine Islands, I have the honor to state that this Department will appreciate a further expression of your views thereon.

The second method, or letter of credit system, is the one under which officers of the quartermaster's department in Manila have mainly been supplied with funds.

The third method provides that checks drawn against funds placed in subtreasuries to the credit of disbursing officers in the Philippines will be paid by the Hongkong and Shanghai Banking Corporation without expense, and appears to be most desirable.

Information is desired as to whether or not your bank will keep on hand and be prepared to furnish the money that will be needed for this Department from month to month, amounting to somewhere in the neighborhood of $800,000 or $900,000, and be willing to do this at all times without regard to the cost of exchange.

This Department would not like to be responsible for the approval of any plan which could lead to a failure in the prompt payment of troops in the Philippines.

Very respectfully,

Elihu Root, *Secretary of War.*

Mr. A. M. Townsend,
Agent for the Hongkong and Shanghai Banking Corporation,
No. 50 Wall Street, New York, N. Y.

On the day following its receipt the same was replied to as follows:

Agent for the Hongkong and Shanghai Banking Corporation,
50 Wall Street, New York, September 13, 1899.

Hon. Elihu Root,
Secretary of War, Washington, D. C.

Sir: I beg to acknowledge the receipt of your letter of the 11th instant, and in reply would say that you need not have the slightest fear but that this bank will keep on hand all the funds needed to meet the requirements of the United States Army in the Philippines or to meet the payments that may have to be made for contracts in Hongkong, China, the Straits, and Japan. It is our business to provide funds to meet all requirements in that part of the world.

In further explanation I would say that, supposing you supplied the quartermaster out there with credits to draw on a London bank and at the same time supplied him with authority to draw on the United States Treasury at New York for a similar amount, you will at once see that the form of credit does not affect the question of the supply of cash—placing the proceeds at the current rate of exchange at the disposal of the quartermaster.

Therefore the question of supply of cash in Manila is not affected by the form of credit sent by you. It is merely a question of which form of credit is preferred by you, and, as I pointed out in my former letter, a credit on the United States Treasury saves all commission and charges and keeps the business in the hands of the Government officials.

I think I have now only to reply to your querry as to whether this bank would undertake to keep the necessary funds at the disposal of your officials at all times "without regard to the cost of exchange."

I am not quite sure that I fully understand this, but would say this bank will always be in a position to negotiate bills offered under your credits, whether on the

United States Treasury or on bankers, to any amount, "at the current rates of exchange," on New York, San Francisco, or London, and that our profit will be in the exchange, and that there will be no other charge whatsoever, and should you wish me at any time to advise such credits either by telegram or by mail, that will be done also free of charge.

Very respectfully,

A. M. Townsend, *Agent.*

On the day following, and before any answer was made to the foregoing letter, the following telegram was received:

New York, *September 14, 1899.*

Hon. Elihu Root,

Secretary of War, Washington, D. C.:

My letter of yesterday contemplated placing at disposal of quartermaster the equivalent in Manila currency of drafts on Treasury—that is, Mexican dollars—as you possibly wanted information as to placing United States gold dollars at their disposal. I will write you further on subject to-day.

A. M. Townsend.

By Card 808 it appears that Mr. Townsend, on the 14th, also wrote the Secretary of War to the effect that "his letter of the 13th instant dealt with methods of placing Mexican dollars at disposal of officials in Manila, and if United States dollars are required it will cost about 2 per cent, but suggests if contracts be made payable in United States money they should provide that if paid in Manila it be in Manila dollars at current rate of exchange, and by this system the bank would have to supply local currency only." The matter was then again referred to the Paymaster-General for remark, and by him returned, saying: "Not prepared to approve paying these troops in Mexican silver, and, as transports ply between Manila and San Francisco and gold can be taken at a cost of less than 2 per cent, thinks it unnecessary to change present system or use any banking house."

The papers were then forwarded by the Secretary of War to the Secretary of the Treasury "for an expression of his views."

There does not appear to have been a separate reply to this reference, which is to be regretted. The present case presented the question of application of the Treasury Department Quarterly Circular to current transactions with army officers squarely, and if a decision had been reached thereon, it would have been a guide and might have saved many of the complications which have arisen since. The Secretary of the Treasury, on the other hand, had no less than four phases of this question before him, and his letter of October 30, 1899, returning a large number of inclosures sent him with former correspondence, and comments thereon, was probably intended to dispose of the whole subject-matter for the time being at least. It will be noticed, however, that in all the letters of sundry dates, and upon various phases of the currency question, the Secretary of the Treasury nowhere, by direct statement nor by inference, intimates that the Quarterly Circular issued by the Treasury Department, upon advice of the Director of the Mint, as provided by section 25 of the act of 1894, has any application whatsoever to current accounts of army officers. On the other hand, War Department Circular No. 65, issued as General Orders of that number, should be the rule.

Under date of August 31, 1899, Major-General Otis presented his annual report, wherein he discusses this important question at length; and, as he speaks from experience, his remarks are here given as having an important bearing on the subject-matter. On pages 265–267 of his report he says:

The present currency of the islands consists of the Filipino dollar, of which 6,000,000 were sent from Spain in 1897, about $10,000,000 in subsidiary coin, 8,000,000 or 10,000,000 of Mexican dollars, and $1,500,000 in bank notes of the Banco Español-Filipino. The former standard money was gold, consisting of the Spanish "onzas" and the one, two, and four dollar pieces minted in Manila. All of these have been driven out of circulation by the cheaper silver currency. The Banco Español-Filipino is the only bank which has the power to make paper issue. Under Spanish concession and in return for loans made to that Government it was granted the privilege of issuing its notes amounting to three times its capital stock of $1,500,000, and its paper dollar is considered the equivalent of the Mexican silver dollar. The Spanish Government had representation in the management of this bank, and recently the bank invited the United States authorities here to avail itself of this privilege by the appointment of an accredited agent, which invitation has been declined, as such action might be construed to be an acknowledgment on the part of the United States of its obligation to recognize under treaty promises the validity of the Spanish concession. The War Department has paid out in Manila United States gold currency in considerable quantities, and it is believed that about $3,000,000 from these disbursements have been hoarded by the inhabitants. The money in circulation, therefore, in the Philippines is less than 30,000,000 of silver dollars, or the equivalent—a very small sum to transact the volume of business; but then a large share of this trade depends upon credit and the exchange of the country's products, so that comparatively little money is required to conduct it. However, during the yearly periods of greatest exportation money to move the crops becomes very scarce and rates of exchange high. Exchange fluctuations were greater in Spanish times than at present, for in 1878 Spain prohibited by decree the importation of Mexican dollars of a mintage later than the date of the decree, except under high-duty payments, and gave no substitute. This induced smuggling from the foreign Asiatic ports, and the smuggler was paid a handsome profit for the hazard he encountered. The enterprise was brisk until money became plentiful and exchange had again returned to a nominal figure.

When money was in great demand the price of the Mexican dollar was considerably above its Hongkong value in gold and sold in Manila for from 10 to 15 per cent more than its actual value. The currency of the country still fluctuates daily according to the price of silver in the great money markets of the world and has no stable value. This, however, appears to affect very little ordinary business unless purchases of merchandise and services must be paid for in gold, when these fluctuations enter largely into the calculations of profit and loss. The merchant who buys gold in Manila must pay not only the rate of exchange, but the estimated cost of transporting the metal, and if he wishes to convert gold into silver he must pay high exchange rates and the cost of shipment of the Mexican dollar. The public revenue is paid in the currency of the country, as is most expedient, else daily silver fluctuations would necessitate daily difficult calculations upon the gold value of the money offered at the various public offices; but as it is for the most part expended here for services and on local contract purchases the difficulties attending rates of exchange are not serious. The officers and enlisted men of the Army who are paid in gold have been the principal sufferers, as they are obliged to exchange their gold for silver to meet their local payments. The two established banks of the islands other than the Banco Espanol-Filipino, above mentioned, are branches of the Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia, and China. These have been made depositories of the public civil funds and generally make the money exchanges for the Army. For a long time they allowed but $2 silver for $1 in gold, but recently have arranged for receiving gold deposits from disbursing officers on account and to make payments thereon in gold. This entire question of the currency requires the mature deliberation of our most eminent monetary authorities.

These views, thus expressed by General Otis, confirm what was being said by the officials of the Government about the same time here in their correspondence.

Under date of September 27, 1899, General Orders, No. 41, were issued by General Otis:

I. Until further orders the exportation of Spanish copper coinage from these islands is prohibited under penalties hereinafter prescribed.

II. All persons who have exported or may attempt to export from these islands copper coinage in violation of the preceding paragraph shall upon conviction be fined not more than 500 pesos or imprisonment not more than six months, or shall suffer both such fine and imprisonment, at the discretion of the court; in addition, the coinage so exported or attempted to be exported shall be forfeited.

III. Offenses under this order will be tried and punished by the courts of first instance under such provisions as to jurisdiction and appeal as govern said courts in the exercise of their usual criminal jurisdiction. Where courts of first instance have not been provided said offenses will be tried and punished by the provost courts, whose judgments in such cases, when approved by proper authority, shall be final.

Capt. Albert Todd, auditor at Manila, brought this matter to the attention of the authorities in the following letter:

OFFICE OF THE AUDITOR,
Manila, P. I., October 23, 1899.

To the Secretary of the Military Governor in the Philippines.

SIR: Referring to my letter of the 9th instant, relative to conversion of Mexican currency into gold, I have the honor to present the following in addition thereto:

At the present time there are four different rates of conversions—

1. The rate telegraphed from Washington to the chief quartermaster of this department and used in the quartermaster's department here, $0.474 in gold for 1 Mexican dollar or peso.
2. The rate used by the subsistence department, $0.481, a rate formerly in use by that department and ordered continued by the governor-general in the Philippines.
3. The rate used at the custom-house in the payment of employees whose salaries are fixed in gold, $0.50.
4. The bank rate, to-day $0.485, necessarily used by the treasurer should he have to deposit gold and take credit in Mexican.

It will thus be seen that in the quartermaster and commissary departments the Government in these islands is a loser, while in the customs department it is a gainer, as the bank rate is the basis of commercial transactions and, in the opinion of the auditor, the true value of the Mexican peso. A person entitled to payment in gold should receive its equivalent in Mexican at the value of the latter here—not what it is in the United States.

In view of these facts I respectfully recommend that the bank rate be adopted for all conversions of currency where the public civil funds are involved.

The reason that the auditor brings this matter to the attention of the governor-general is that many accounts current depend on vouchers where a conversion has been made, and these vary as to rate, as above stated.

Very respectfully,

ALBERT TODD,
Captain, Sixth United States Artillery, Auditor.

The foregoing was indorsed by General Otis, as follows:

Respectfully forwarded to the Adjutant-General of the Army, with the request that a uniform rate of exchange, to be employed by all disbursing officers here, be fixed by the War Department at the beginning of each month and cabled. This course is pursued by the Navy, which has no trouble in making payments in the currency of the country.

When received by the War Department it was referred to the Quartermaster-General, Paymaster-General, and Commissary-General of Subsistence, each of whom indorsed thereon as follows:

The Quartermaster-General said:

Respectfully submitted to the honorable the Secretary of War, with remark that the chief quartermaster at Manila was informed January 3, 1899, March 30, 1899, June 29, 1899, and September 28, 1899, that the value of the Mexican dollar was $0.477, $0.472, $0.481, $0.474 on dates named, as estimated by the Director of the Mint and proclaimed by the Secretary of the Treasury January 1, 1899, April 1, 1899, July 1, 1899, and October 1, 1899, respectively, and which it is understood were the proper rates for converting Mexican dollars into United States money.

The United States Navy uses the same rates, and it is learned cables them as published from the Mint Bureau each quarter.

I think it would be well if the same information were cabled to the commanding general of the military forces in the Philippines each quarter as ascertained from the Treasury, to be by him promulgated, so that all disbursing officers in those islands would have the same rate for converting Mexican money.

Independent of Treasury estimates of coin values, the bank rate, varying according to conditions, will doubtless continue to be the basis for commercial transactions.

The Paymaster-General said:

Respectfully returned to the Adjutant-General, with the information that the accounts of the Pay Department in the Philippines are all conducted on the basis of the American coin; that we make no conversion into Mexican coin, nor have we to do at all with the value of the Mexican dollar in the Philippines, and it is not considered desirable that we should have.

The Acting Commissary-General of Subsistence said:

Respectfully returned to the honorable the Secretary of War, concurring in the views of the honorable Secretary of the Treasury in his letter of October 30, 1899, herewith, so far as the accounts of disbursing officers of the War Department in the Philippines are concerned. By section 3563, Revised Statutes, and Army Regulations 635, the money of account of the United States is required to be expressed in dollars and cents; and if there should be any necessity for such disbursing officers in the Philippines to make payments at any time in Mexican money, the method of doing so is amply provided for by General Orders, No. 65, Headquarters Army, April 10, 1899. This method permits the allowance of local or bank rates of exchange in converting the money of the United States into foreign coin by United States disbursing officers for purposes of payment.

It is apprehended, however, that the object of the letter of the auditor of the military government, herewith, is to secure the introduction of uniformity of practice as to rates of exchange to be allowed in monetary transactions on the part of the military government in the Philippines. The auditor of the military government recommends that the bank rate be adopted by the military government for all conversions of currency by it where the public civil funds are involved. The military governor recommends that a uniform rate of exchange be employed by all disbursing officers in the Philippine Islands, to be fixed by the War Department at the beginning of each month, and cabled. If the bank rate, as recommended by the auditor, is adopted and authorized, the rate of exchange will be uniform with that now authorized for disbursing officers of the War Department in those islands.

With its several indorsements the paper was, on January 2, 1900, referred to the Secretary of the Treasury by the Assistant Secretary of War. On the 15th of January, 1900, the Secretary of the Treasury returned it with the following:

TREASURY DEPARTMENT, *January 15, 1900.*

Respectfully returned to the honorable Secretary of War. It is regarded by this Department as a very doubtful experiment to undertake to avoid the bank rates in Manila—either by independent purchases of Mexicans, or by fixing a uniform rate of exchange, as suggested by the military governor. See Department's letter of October 30, 1899.

L. J. GAGE, *Secretary.*

If there ever was any doubt as to the position of the Secretary of the Treasury the above brief remark ought to set it at rest. He does not believe that the Quarterly Circular is practicable.

The Secretary of War then advised General Otis as follows, under date of January 27, 1900:

SIR: I have to acknowledge the receipt, by your reference of October 27 last, of a letter of the 23d idem, from Capt. Albert Todd, auditor for the Philippine Islands, respecting the different rates of conversion in those islands of Mexican currency into gold, and recommending that the "bank rate" there be adopted for all conversions of currency where the public civil funds are involved.

In reply I beg to advise you that, under date of the 15th instant, the honorable the Secretary of the Treasury says: "It is regarded by this Department as a very doubtful experiment to undertake to avoid the bank rates in Manila—either by independent purchases of Mexicans, or by fixing a uniform rate of exchange, as suggested by the military governor. See Department's letter of October 30, 1899;" and that this Department concurs in the views thus expressed, and in those contained in his letter above referred to, a copy of which is herewith inclosed for your information.

December 23, 1899, General Orders, No. 71, were issued by the military governor proclaiming sundry new regulations for keeping and rendering accounts in the Philippines. Among other matters contained in it were the following:

On and after January 1, 1900, the following system of keeping and rendering accounts and returns for public civil funds and property will prevail in these islands:

* * * * * * *

The auditor shall prescribe the forms for keeping and rendering all accounts subject to his examination and settlement, which forms shall conform substantially with those used by officers rendering accounts to the Treasury Department of the United States, and issue all necessary instructions to the officers and agents rendering such accounts.

* * * * * * *

For the present all money accounts will be kept in Mexican currency.

* * * * * * *

In order to insure uniformity in accounts of officers disbursing the civil funds, and in the accounting for property purchased therewith, the following notes and instructions have been compiled:

* * * * * * *

Where blank form does not have printed on it "Mexican currency," or "Public civil funds," or "Public civil property," these should be written thereon where required.

On March 3, 1900, the following cablegram was sent to General Otis:

Is it practicable to collect customs duties United States currency, thereby saving exchange? Would practice increase circulation our currency?

MEIKLEJOHN.

To which General Otis replied on the 8th of March, 1900, as follows:

Can collect customs duties United States currency if Mexican dollars given fixed value for successive periods of month or three months; would probably increase circulation; not result in saving exchange; little gold available; large amounts exported to China and hoarded. Gold duty payments would compel merchants to pay high fluctuating prices for gold. Tariff complicated; reduction to gold difficult unless Mexican dollar given fixed value for certain definite time. Gold not circulating in hemp, tobacco, sugar, and copra districts; natives not educated in it, and as producers they would be at mercy of purchasers. If duties collected in gold, Government would still need Mexican dollars for island expenditures, for which exchange must be paid, and thus double standard continued. Gold payments in all Government transactions would raise price labor and commodities and unsettle business. Natives prefer 2 pesos to 1 gold dollar; time not propitious to change money standard.

OTIS.

May 11, 1900, by a report of the inspector-general, a new phase of the practical working of the application of the Treasury Department circular to accounts current was demonstrated in an examination made of the accounts of Q. M. Maj. John T. Knight's accounts as quartermaster in the Philippines.

Card 1777 contains the following:

Inspection of the accounts of Maj. John T. Knight from June 25, 1898, to January 22, 1900, and from January 23, 1900, to February 28, 1900. On first statement Major Knight claims credit for $202.76, loss in depreciation of $20,275.50 Mexican silver, and on second statement $1,458.88 on depreciation of $43,532.70 Mexican silver. Refers to General Order 65, and says from these instructions it would seem that each transaction was separate and distinct, and as the officer would receive full credit for his disbursement at the time of payment, no subsequent claim for credit would accrue from a variation in the rate. Says it is not known in his office upon what date these credits are claimed.

Indorsed by Assistant Secretary of War to the Quartermaster-General, May 24, suggesting reference of papers to Major Knight "for information as to the necessity for the use of Mexican or other foreign coin in making disbursements in the Philippines, and how disbursing officers procure such coin, with particular reference as to whether the same is taken originally from the fiscal agent's hands in return for the official check of the officer, or whether the funds are first drawn out in American money and then exchanged for foreign coin. Also as to whether the depreciation reported by the inspecting officer is an actual loss on disbursements made, or an estimated depreciation that may be recovered by a future advance in the value of Mexican coin."

Says Major Knight's attention should be called to copy of section 3651, Revised Statutes, inclosed, with the idea of eliciting such information as may be of value in connection with the subject.

The paper came back August 21, 1900, indorsed by the Quartermaster-General as follows:

Inviting attention to indorsement by Maj. John T. Knight, depot quartermaster, dated Manila, July 10, 1900, who shows that the reason disbursements are made in Mexican silver is because that is the medium of exchange of the country; all market quotations are made in it, all labor is paid by it, and that Mexican coin is purchased from the banks the same as any other commodity; that he carries his credit on quartermaster funds with the Hongkong and Shanghai Banking Corporation; that when he needs Mexican money he finds what the banks will charge for it, then he gives his check in United States currency to cover the sum needed, and he is given credit at the bank in Mexican money and he checks against it; that at present it is accounted for at the exact price at which it was purchased, so there is no loss in exchange, but that in November and December, 1899, all the money he received and disbursed was in Mexican silver, and the rate fixed at Washington for that quarter was 0.474 cents, gold, as per order herewith.

At midnight on December 31, 1899, he had on hand $20,275.50, Mexican, which sum, at 0.474 gold, amounted to $9,610.59 gold. One minute after midnight this identical silver, by order from Washington, was worth only 0.464 cents, or $9,407.83 gold, or a depreciation of $202.76.

The rate had not changed in Manila, and he could have purchased just as much with the money on hand January 1 as on December 31.

That in February he had to purchase $43,532.70 at 0.4975 cent, but pursuant to orders he had to expend it at 0.464, making a difference of $1,458.88, not a real loss, as the Government received quid pro quo for all of it, and states further that the buying rate never has been as low in Manila in his experience as the rate fixed at Washington.

The account was finally settled upon the basis of General Orders, No. 65, War Department.

May 24, 1900, there was issued from the headquarters of the Division of the Philippines, General Orders, No. 25, containing the following:

1. Pursuant to instructions received from the War Department, a squadron of Philippine cavalry will be organized by Lieut. Col. Wilber E. Wilder, Forty-third Infantry, U. S. Volunteers, consisting of four troops of native scouts, having a maximum of 120 men to a troop, and a squadron of noncommissioned staff of one sergeant-major, one quartermaster-sergeant, and one commissary-sergeant, engaged to serve until the 30th day of June, 1901, unless sooner discharged. Each scout before being accepted for service shall subscribe to a contract in the following form:

"We, the undersigned, do severally agree that we will well and faithfully serve the United States of America as scouts in the squadron of Philippine cavalry from this the —— day of ———, 1900, until the 30th day of June, 1901, unless sooner discharged. This contract is made with a full knowledge of and in conformity with

General Orders, No. 25, all provisions of which, including the pay and allowances established therein, are hereby accepted and made a part of this contract. And we do further agree to obey and abide by all such laws, orders, and regulations as have been or may be hereafter prescribed. (Signed.)

"______ ______."

The monthly pay and clothing allowance of these scouts shall be in Mexican coin, as shown in the following table. (Then follow "Monthly pay" and "Monthly clothing allowances," all stated in "dollars.")

Card 808 has record of another case similar to that of Major Knight's found on page 19, as follows:

Upon an inspection of money accounts of Maj. C. A. Devol, quartermaster-general volunteers, at Manila, by Inspector-General Garlington, it was shown that he claimed $2,939.01 as loss during first half of fiscal year 1899–1900, resulting from depreciation of Mexican coin on hand into which he necessarily had to convert his money.

The Quartermaster-General, March 24, 1900, in remitting the case, notes need of a United States depository.

The same was indorsed April 28, 1900, by Assistant Secretary of War, through the Adjutant-General's Office, to the commanding general in the Philippines to pay this sum, $2,939.01, to Major Devol from Philippine funds. (5229—I. G. O.)

Same card has an account of still another case of Major Howard, found on page 19, as follows:

In a similar inspection of money accounts of Maj. Guy Howard, quartermaster, who claimed credit of $771.63 for loss in changing his money to Mexican silver in the Philippine Islands, the Acting Secretary, on May 19, 1900, indorsed the papers back to the inspector-general asking why it was necessary to convert United States money into Mexican, and under what authority it is proposed to ask settlement by the Treasury Department accounting officers, and why the inspecting officer made no comment.

Pending this information, action ordered in case of Major Devol has been suspended in a cablegram to commanding general of the Philippines.

On May 25, 1900, the Assistant Secretary of War telegraphed General MacArthur as follows:

Suspend action until further orders repayment Devol from civil funds for depreciation Mexican coin authorized in indorsement April 28, forwarded by mail. Acknowledge by mail.

Subsequently the Howard papers were returned, accompanied by the following:

Returns inspection report of accounts of above quartermaster at Manila (Maj. Guy Howard), made by Maj. W. D. Beach, inspector-general, to January 27, 1900, showing Major Howard had on hand September 30, 1899, $45,389.70 Mexican silver, worth 48½, which on January 1, 1900, by rate fixed by United States, viz, 46.4 caused depreciation of $771.63 gold, to which attention was invited in view of War Department order to make good such depreciation from island funds in case of Devol.

In reply to indorsement of May 19, 1900, asking for the reason why United States funds are converted into Mexican and how it is proposed to settle this difference, and that pending receipt of this information no action will be taken in the Devol case the inspector-general invited attention to report of Insp. Gen. W. D. Beach, who explains that as all purchases are made in Mexican money, as natives know no other, it has to be bought at the banks who are not governed by the Government rate, and this loss is not an actual one, but caused only by the requirement that Mexican shall be reported at the rate fixed by United States. Refers to Adjutant-General's Order No. 65, 1899, and says, construing it as was probably intended, officers are reducing bills in Mexican to local value in gold.

The order to suspend the foregoing accounts was modified, and both of them have been settled as per Order No. 65.

The matter was taken up by Congress at its last session. The following was enacted:

AN ACT to provide better facilities for the safe-keeping and disbursement of public moneys in the Philippine Islands and in the islands of Cuba and Porto Rico.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is hereby authorized to designate one or more banks or bankers in the Philippine Islands and in the islands of Cuba and Porto Rico in which public moneys may be deposited: *Provided*, That the banks or bankers thus designated shall give satisfactory security for the safe-keeping and prompt payment of the public moneys so deposited by depositing in the Treasury United States bonds to an amount not less than the aggregate sum at any time on deposit with such banks or bankers: *And provided further*, That this act shall apply to Cuba only while occupied by the United States.

Approved, June 6, 1900.

This act was passed, and supposed by many to afford a remedy for many of the difficulties existing in the islands. The intent was all right, but in attempting to make use of the legislation it was developed that it did not reach the case. Inquiry was made, and it was ascertained that the Navy Department and the War Department each had occasion at times to have as much as $5,000,000 of American gold at Manila. This is not taking into account any of the islands' funds, nor any other items. It soon appeared, then, that under the foregoing law United States bonds to the amount of $10,000,000 at least must be deposited by the "banks or bankers" before they could be thus designated. They would not make application under the law, and, as a matter of fact, there has not been even a suggestion of an attempt to become depositories beyond the formal inquiry, and when the case was understood all negotiations ceased.

June 21, 1900, Circular No. 8, issued from the Headquarters Division of the Philippines, is a code of general instructions to medical officers. On page 18 is found the following rule for currency transactions:

Attention is invited to General Order 65, Adjutant-General's Office, April 19, 1899. Each voucher should show the currency under which indebtedness is incurred and the currency in which paid. If the indebtedness is incurred in Mexican currency it should be shown on both vouchers and bills, and the reduction into United States currency at the current rate of exchange will be made by the disbursing officer paying the account, and not by the medical officer incurring the debt.

June 27, 1900, General Orders, No. 38, were issued from "Headquarters Division of the Philippines." This is a code of instructions to officers in the "subsistence department," and, among other items, contains the following (p. 7):

(*d*) Commissaries will on June 30 of each year invoice direct to the division chief commissary all funds on hand pertaining to the fiscal year ending on that date not needed to pay outstanding liabilities contracted within the fiscal period.

This transfer will be effected as follows: After ascertaining the exact sum necessary to pay outstanding accounts it will be deducted from total sum on hand, and the balance will be the amount to be invoiced. The money itself will be retained at the station, the commissary forwarding an invoice signed in duplicate covering amount transferred pertaining to ended fiscal year and a receipt signed in duplicate for an amount pertaining to the following fiscal year to the chief commissary of the division, who will send to him respective receipts and invoices for funds of a corresponding amount and fiscal year, thus accomplishing a transfer and avoiding the necessity for shipments of money to and from posts.

(*e*) Funds received from sales will be taken up on account current, as of fiscal year, of month in which sale was made, notwithstanding the supplies sold may have been purchased in a past fiscal year.

Only United States currency or official checks on the United States Treasury, subtreasurers, or depositories will be received in payment for sales, and such checks will be considered as currency.

The first quotation would indicate that the money "to be invoiced" would naturally be other than United States coin.

On the other hand, the last quotation would appear to limit such officers to the use of United States currency.

Under date of July 23, 1900, the chief ordnance officer in the Philippines caused to be forwarded the following letter, having a direct bearing upon this question, and action upon it may affect the whole subject-matter:

Subject: Purchase of silver.

DIVISION OF THE PHILIPPINES,
OFFICE OF THE CHIEF ORDNANCE OFFICER,

No. 99. *Manila, P. I., July 23, 1900.*

The CHIEF OF ORDNANCE, U. S. A.,
Washington, D. C.
(Through official channels.)

SIR: I have the honor to request authority to purchase in Hongkong, or wherever it may be had at the best advantage, Mexican silver for the payment of the native employees at the depot and for the payment of the merchants and others with whom official dealings are had. The reasons for this request are as follows:

All the transactions in these islands are in Mexican silver, and all other departments do their business in this currency. At the depot it has been the custom to purchase silver from the banks at the best rates obtainable, converting the bills and pay rolls made out in silver to a gold basis at the uniform rate of 2 for 1 for all papers to be sent to the Ordnance Office. This, while not entirely satisfactory, was fairly so as long as the banks made a rate of 2.02 or 2.01, because gold checks drawn in favor of private firms were cashed by the banks at 2.01 or 2, and no question arose. The small premium which resulted on the pay roll when gold was at 2.02 was kept account of, and when it amounted to an extra day's pay for all the work-men, it was disposed of in that way. For the past month or more the rate made by the banks has been 2, and a Government check will not be cashed by them for any but an officer for more than 1.99. It was only after an agreement made with the chief paymaster that this favor of cashing Government checks in silver at the posted rate was granted to officers. A gold check can not be cashed at the banks for its face value in gold, but generally at 1 per cent less. Accordingly a check drawn to-day, when the rate posted may be 2.01 will be worth less to-morrow when the rate may be reduced. On this account complaints have been received from our creditors that they were not getting the amount which the department had promised. When checks are drawn for $609 and $1,851, as were two since the rate has been 2, the embarrassment is considerable. This condition will be even more serious when the rate goes below 2, as it probably will. During all this time the rate in Hongkong, two days distant, is 2.10, I am informed by the treasurer of the islands.

Another serious matter is that the bank's counterfeit is paid out in large quantities, and 1 per cent at least may always be expected. I have received as high as 7 counterfeit dollars out of 274, 6 of which I detected and returned. At all the banks, viz, the Hongkong and Shanghai, the Chartered Bank of India and Australia, and the Filipino Bank, I have returned counterfeit money, and have seen it placed back on the stacks of silver, and while I was still in the bank, paid out to the next patron. This is not an exceptional occurrence, but the usual custom.

Arrangements can be made to purchase silver in Hongkong, and the treasurer of the islands will grant permission to place it in vaults at the treasury building. Insurance will be but a small item, and as there is a naval paymaster in Hongkong the arrangements can probably be made through him and the funds sent on a Government vessel to this port.

The estimate of funds amounts to about $7,500 for one quarter. About $2,000 of this will be for the payment of employees whose salaries are paid by Government check. It is proposed, as soon as the funds become available, to purchase silver for the entire amount allotted for one quarter. All bills from private parties may then be made in Mexican currency, and the department will be the gainer by about $500 silver, instead of a possible loser to a considerable extent, should the rate continue at 2 or go below.

I would propose that the employees whose salaries are paid in gold be allowed the privilege of drawing their pay in silver at the rate obtained where silver is purchased less cost of transportation and insurance.

Should this application be considered favorably, I would request that the commanding officer of the depot be advised by cable.

Very respectfully,

LAWSON M. FULLER,

First Lieutenant, Ordnance Department, U. S. A., Disbursing Officer.

July 31, 1900, the acting inspector-general in the Philippines made a formal report, in compliance with an order from the Secretary of War, made by letter of June 5, wherein was a request for an auditorial report of the accounts of the "auditor and treasurer."

The report is full and explicit; it shows certain accounts kept in Mexican silver and others in American gold. The whole is reduced to gold, and so recognized. Among other matters stated and referred to therein is the following:

Taking the auditor's office in relation to the treasury I find that the records of the auditor's office correspond with the records of the treasurer's office, and with the moneys and articles on hand. Up to and including July 24 the auditor and the treasurer had been striking daily balances and comparing them, thus keeping their accounts of funds up to date. On July 25 the treasurer, in compliance with his interpretation of a cablegram from Washington, began making his returns of receipts and expenditures in American gold valuations at the established rate of 0.476. These the auditor had not entered on his books, as his interpretation of orders was that accounts here should be rendered in Mexican currency and not in United States gold valuation. The balance at the close of the business day of July 25 did not show on the auditor's books. It was arrived at, however, by reducing the treasurer's returns for that day to Mexican silver valuation, and thus getting the auditor's balance, which was then turned into the gold valuation.

Accompanying the report is filed a pamphlet containing rules and regulations for keeping accounts, etc., in the offices in the Philippines, wherein the following rule appears:

Page 11. The accounts of the treasurer shall be kept in the money of the United States, and all payments made to him in any foreign coin or currency shall be reduced to money of the United States at the true and proper valuation.

The treasurer shall issue receipts in duplicate for all moneys received by him, which shall be numbered consecutively and shall state when, from whom, and on what account received, and the amounts in money of the United States; and also, when paid in any foreign coin or currency, the amounts and kind of foreign money in which payments were made shall be stated upon the receipts and the rates at which the same are reduced to money of the United States.

On the 3d of August, 1900, a new feature of the currency question was developed, and a very lively and spirited correspondence followed. It arose in the following cablegram:

MANILA, *August 3, 1900.*

ADJUTANT-GENERAL, *Washington, D. C.:*

Quartermaster rate of exchange is 2.10 Mexican for United States, announced for quarter commencing July 1; bank rate Manila to-day, $1.98 Mexican for $1 United States. Remote cause of fluctuations is Chinese war, which is made pretext by local banks for profitable speculation in United States currency. As a temporary restraint on downward movement have ordered United States currency tendered in payment of customs and other dues to be received as heretofore at the rate of two for one. To require all dues to be paid in silver would be complete financial remedy, but would depreciate United States money and give local banks more extended opportunity for speculation at expense of United States currency. A partial remedy, but not of immediate application, would be establishment of the United States subtreasury system, whereby we would handle all our own money and not furnish foreign banks gratuitously funds for speculation in opposition to the interests of the United States. The two concerns here which now hold our deposits have something more than 5,500,000 Mexican dollars of our money. Has the Department any orders in the premises?

MACARTHUR.

August 6, 1900, the Secretary of War transmitted several inclosures and the foregoing telegram to the Secretary of the Treasury, as follows:

WAR DEPARTMENT,
Washington, August 6, 1900.

SIR: I have the honor to invite your attention to the following copy of a cablegram received from the military governor of the Philippine Islands.

(Here is recited the cablegram above.)

The "quartermaster rate" is that fixed by the Director of the Mint and cabled by the Quartermaster's Department here to the quartermaster's department in Manila once every three months.

It would appear that a combination has been entered into by the two banks that handle the insular funds to reduce the rate on American gold. It is not seen how an insular treasury, similar to the one established in Cuba, would accomplish the object desired, nor would the establishment of United States depositories as authorized by the act of June 6, 1900, give the necessary remedy.

The Department would be glad at your earliest convenience to receive your views and recommendations in this matter.

Very respectfully,

ELIHU ROOT, *Secretary of War.*

The honorable the SECRETARY OF THE TREASURY.

On August 9 General MacArthur sent the following as a cablegram to the Secretary of War:

Contents my message August 3 in the hands of the Manila Luzon Bank; communicated via New York and Hongkong; this very much to my embarrassment.

To which the Secretary replied on the 10th of August, as follows:

Subject-matter your cable was text personal remarks by Secretary of War with bank representatives. Contents discussed only in general way. Text not given him.

The Secretary of the Treasury replied at length to the letter sent him, as follows:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
Washington, August 10, 1900.

DEAR SIR: I have the honor to reply to yours of the 6th instant, in which you quote a letter from General MacArthur, dated August 3, concerning which you would like the views and recommendations of this Department.

General MacArthur complains that while the quartermaster's rate for exchange is 210 Mexican for United States money the bank rate is 198. He states that the remote cause of the fluctuation (he means higher prices for Mexicans at the bank, I suppose) is the Chinese war, "which is made pretext by local banks for profitable speculation in United States currency." He advises that, as a temporary restraint on downward movement (of United States money), he has ordered United States currency to be received at the custom-house in payment of dues at the rate of 2 for 1, and expresses the opinion that if all dues were required in silver the evils complained of would be remedied, but the effect would be to further depreciate United States money and "give local banks more extended opportunity for speculation at the expense of United States currency." He further suggests that a partial remedy, but not of immediate application, would be an independent treasury.

In considering the subject-matter in the light thrown upon it by General MacArthur's letter, I am first struck with the thought that the quartermaster's rate of exchange is itself arbitrary and unnatural—one that there would always be difficulty in maintaining, at least upon the present principle. That principle is: Fix a value on Mexicans, determined by the Director of the Mint at quarterly periods. The valuation placed by the Director of the Mint is based wholly upon the bullion value of the silver contained in a Mexican dollar at New York or London, which may be, and often is, quite unrelated with the commercial value of the Mexican dollar, either in these two cities or elsewhere. While it is probable that the value of the Mexican always tends to be established by the value of the bullion which it contains, aberrations constantly arise at local points, through the influence of the law of demand and supply. General MacArthur seems to think that the higher price of Mexicans at the bank is due to the perversity and greed of the bank, but finds its excuse in the disturbance in the movement of money caused by the Chinese troubles. I am more inclined to believe that the banks are giving no new exhibition of sordidness, but that they themselves are the necessary victims of the unfavorable influences occasioned by the Chinese war. They are obliged to adjust themselves and their actions to the influence of movements they can not control, and I do not see why General MacArthur is not subject to the same rule of commercial necessity.

It is not clear to my mind whether he is speaking of his relation to the financial affairs of the island pure and simple, or whether he is speaking of his relation to the Army, in whose behalf he is obliged to purchase, I suppose, large quantities of island goods and supplies for which he has to contract in Mexicans.

I regret that I do not see my way clear to a recommendation which will solve this trouble. The rise in Mexicans, or, what is the same thing, the fall in United States currency, makes what he pays for cost more, whether wages or commodities. The only sure cure would be to introduce a new supply of Mexicans from some quarter of the globe, if there be such a place, where they can be purchased cheaper than in Manila. I doubt if there is such a place, when transportation and risk are taken into account. Silver bullion itself has advanced in price in the New York and London markets, and the tendency is upward. I see only one practical suggestion that I can make. There is, I suppose, a rather wide margin of profit between the buying price and the selling price of Mexicans in the banks. It might be worth the effort to require the banks to furnish the Government what it required at a reasonable margin between their buying and selling price at a given day or date, say a quarter, or not more than one-half per cent. A margin of profit to the banks of 2½, 3, or 4 per cent when dealing with the Government is hardly to be endured. If this could be arranged General MacArthur would have to give up his arbitrary rate of 210 and adopt the rate commercially current—this without regard to its effect upon United States currency or anything else, since he is powerless to change conditions. If [it] might be added that if the banks were recalcitrant and proposed to exploit the Government by unjust margins, a stern grip of taxation might be put upon them in some form in such a manner as to show them that they were not absolutely masters of the situation.

Very truly, yours,

L. J. Gage, *Secretary.*

Secretary of War, *Washington, D. C.*

The Secretary of the Treasury states the basis of the Quarterly Circular issued by the Director of the Mint, but does not state the object of the same. Assuming that all officers know that object, he refers to the same as the "quartermaster's rate" when discussing the subject, evidently assuming that the application of that circular to matters like unto those involved in the foregoing correspondence is so far outside of the scope intended to be given the Director's value that he disowns it as a Treasury circular when so applied, so calls it the "quartermaster's rate."

August 11 the Secretary of War cabled, through the Insular and Customs Division, the following to General MacArthur, based upon the letter of the Secretary of the Treasury:

Concerning cablegram 3d of August, Secretary of Treasury states silver has advanced New York and London markets, tendency is upward; believes Manila banks merely adjusting themselves present market; sees only one practical solution. If wide margin profit between buying and selling price Mexican, suggests banks furnish Government what it requires at reasonable margin between these prices at any given day or date—say $\frac{1}{4}$ or not more than $\frac{1}{2}$ per cent margin, profit above $2\frac{1}{2}$ in dealing with Government too great. If this can be arranged, will be necessary to give up quartermaster's rate and adopt current rates of exchange without any regard to effect on United States currency. If banks recalitrant and insist on unjust margins, taxation in some form suggested; official copy by mail.

August 11 General MacArthur sent the following cablegram to the Adjutant-General of the Army:

With reference to my telegram, have ordered civilian employees paid in United States currency or Mexican dollars, at their option; when latter, two for one. Banks agree to receive United States currency two to one, provided that we transfer to them weekly from our deposits Mexican dollars to cover sums thus paid out. Have accepted proposition with terminable notice from us. By these arrangements hope to preserve parity two to one, allay popular apprehension, and perhaps avert financial crisis.

Later the Secretary of War advised the Secretary of the Treasury as follows:

AUGUST 14, 1900.

SIR: I have the honor to acknowledge receipt of your communication of the 10th instant regarding the fluctuation in value of Mexican silver in the Philippines.

In reply I beg to advise you that the substance of your letter was on the 11th instant cabled to the military governor of the Philippine Islands, and that the Department has this day received from him the following.

(Here follows the above telegram in full.)

Very respectfully,

ELIHU ROOT, *Secretary.*

The honorable the SECRETARY OF THE TREASURY.

The following very important correspondence was had on this subject, as shown herewith:

CURRENCY IN THE PHILIPPINE ISLANDS.

AGENCY OF THE CANADIAN BANK OF COMMERCE,
New York, August 20, 1900.

The honorable the SECRETARY OF WAR.

DEAR SIR: We take the liberty of inclosing herewith a clipping which appeared recently in a local newspaper, dealing with the subject of the currency in the Philippine Islands, and stating that the War Department would probably "take measures to guard against the action of the banks and have the rate of silver fixed."

The news item referred to was as follows:

"Manila banks combine; arbitrarily reduce rate of exchange on American gold. Washington, August 6. The War Department is considering a remedy for the action of the three Manila banks which have combined arbitrarily to reduce the rate of exchange on American gold. This action on the part of the banks is taken, it is said, on account of the disturbed conditions in China, which the banks say have resulted in increasing the value of the Mexican dollar. Complaints have been made by the authorities in Manila, and it is probable that the War Department will authorize General MacArthur to take measures to guard against the action of the banks and have the rate on silver fixed in the Philippines as it is by the Treasury Department here."

The news item appears to indicate a singular lack of knowledge on the part of American citizens in Manila of the laws which regulate the exchanges in the Philippines, which has led to frequent misunderstandings and misrepresentations of the actions of the banks there, and our friends the Chartered Bank of India, Australia, and China have asked us to submit for your consideration the following information on the subject:

1. The only means by which the currency of the Philippines can be augmented since the occupation of the islands by America is through the introduction of fresh shipments of Mexican dollars.

2. These coins are now very difficult to procure, for various reasons, chiefly that the condition of the exchanges in Mexico, owing to the balance of trade being much less adverse than in former times, will not permit of the dollars leaving that country freely, even when they command a high premium as compared with bar silver.

3. Recently, owing to a great demand for Mexican dollars in Shanghai, presumably in connection with the needful outlay for men-of-war and troops in North China, the price rose to taels 78½ per 100 Mexican dollars, the bullion equivalent of the coins being accepted generally as taels 72 per 100 dollars. The coins were therefore at a premium of 9 per cent. Under these circumstances Mexican dollars suitable for Shanghai rose in value wherever they were held, and the purchasing power of the American gold dollar measured in Mexican dollars fell proportionately.

4. It is obvious, therefore, that the banks can not be held responsible for any depreciation in the value of the American dollar, and until the fluctuating price of the Mexican dollar is understood by the general public in Manila the banks will probably be charged with making profits in ways not legitimate, while they are only exchanging coins at their proper market value.

5. The only remedy for this state of things is to introduce more currency in the Philippines, and we would suggest that if the American Government have any objection to coin for use in Manila a dollar of the same weight and fineness as the Mexican dollar, to circulate with that coin and the Filipino dollar on equal terms as legal currency, then—

6. There is a British dollar already current in the Straits Settlements, Hongkong, and to a small extent in Shanghai, weighing 416 grains and of 900 fineness, which could be introduced without difficulty if the American Government would declare it to be legal currency in the Philippines. This coin is minted in Bombay and Calcutta for the public, and the charge for mintage is 1 per cent.

We feel confident that before any regulations affecting the currency in the Philippines are passed full consideration will be given to the conditions and proposal set forth by our friends, and we beg to tender you our services should you desire to obtain any additional information or facts on the subject.

We remain, respectfully, yours,

ALEX. LAIRD and WM. GRAY, *Agents*.
By ALEX. LAIRD.

The letter was received on August 21, and on the 23d of August it was forwarded to the Secretary of the Treasury, as shown herewith:

AUGUST 22, 1900.

SIR: I have the honor to inclose herewith copy of a communication dated 20th instant, from Mr. Alex. Laird, agent for the Canadian Bank of Commerce, relating to the matter of circulation of silver currency in the Philippine Islands.

I beg to request that you transmit to this Department your views upon the suggestions made by him.

Very respectfully,

ELIHU ROOT,
Secretary.

The honorable the SECRETARY OF THE TREASURY.

On August 25 the following reply was received:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
Washington, August 25, 1900.

SIR: I have the honor to acknowledge receipt of yours of the 22d instant, inclosing communication, under date of August 20, from Mr. Alexander Laird upon the subject of silver currency in the Philippine Islands. I have carefully read the statement contained in Mr. Laird's communication. His analysis of the question, I believe, is correct; it is, at least, in accord with the suggestions made by me a few days since in commenting upon a communication upon the same subject from General MacArthur, which you kindly transmitted to me.

The suggestion of Mr. Laird that an American dollar could be coined and introduced into the Philippines is, I think, worthy of most careful consideration. It is reasonable to believe that a special dollar, quite distinct from our present coinage, to possess the same weight and fineness of the Mexican dollar, not to be legal tender in the United States, might be successfully introduced into the Orient.

Respectfully, yours,

L. J. GAGE, *Secretary.*

To the honorable the SECRETARY OF WAR,
Washington, D. C.

Thereafter Mr. Laird was advised as follows:

AUGUST 29, 1900.

SIR: By direction of the Secretary of War I have the honor to acknowledge receipt of your letter of the 20th instant, with newspaper clipping, relative to the matter of the currency in the Philippine Islands.

In reply I beg to inform you that the Department appreciates your suggestions regarding the same, and that your communication will be given due consideration.

Very respectfully,

CLARENCE R. EDWARDS,
Lieutenant-Colonel Forty-seventh Infantry, U. S. V.,
Acting Assistant Adjutant-General.

Mr. ALEX. LAIRD,
Agent for the Canadian Bank of Commerce,
16 Exchange place, New York City, N. Y.

On the 22d of September, 1900, the Philippine Commission sent the following cablegram to the Secretary of War:

MANILA, *September 22, 1900.*

ROOT, *Secretary of War, Washington:*

American dollar in Mexicans depreciating. Currency situation becoming more difficult. This injures prestige of American currency and causes loss to individual and Government; makes possible extortionate profit for speculators. Early action necessary. Suggest as war measure that remedy is establishment of gold American dollar as standard of value, recoinage of all silver Mexicans coming into Treasury in local mint into token United States Philippine pesos receivable for half dollar, resembling in size and appearance present Mexican peso, but containing small percentage less of silver sufficient to prevent its export. Subsidiary token coins of half peso, 20, 10, and 5, and 1 centavo pieces to be minted. Profits on recoinage probably sufficient to repair mint. Ask submission of suggestion to Secretary of Treasury with inquiry what gold reserve, if any, would be necessary to make plan safely operative. Estimate of silver currency in islands about $34,000,000. Is hoped plan would give stable standard, furnish circulating medium adapted to local conditions, and secure proper prestige for American currency. Might secure gold by collecting customs in gold.

COMMISSION.

September 24 the matter was, by order of the Secretary of War, referred to the Secretary of the Treasury.

On September 25, 1900, the Philippine Commission again cabled on this subject, as follows:

Suggest that ratio of Mexican to American dollar for reduction of Philippine treasury accounts for quarter beginning October 1, under order of War Department, be fixed at one to two, to accord with actual ratio here prevailing, by order of military government.

On the 25th of September Lt. Col. Edwards, chief of the Insular and Customs Division, and acting assistant adjutant-general, cabled the commission as follows:

By approval of Secretary of War, ratio currency to Mexican dollars, quarter beginning October 1, one to two, reduction Philippine treasurer's accounts, Acting Secretary authorizes military government to fix ratios for subsequent quarters, at same time notifying the War Department, and that their cable of the 22d has been submitted to Treasury.

It will be observed that the principle involved in the above instructions is not the same as that which forms the basis of the Treasury circular issued quarterly by the Director of the Mint and proclaimed by the Treasury Department. In the Director's valuation the silver coin is fixed at its market value as "silver." In the rate herein the silver coin is valued at its average value as "money." The one depends upon the value of the metal in the markets of the world, the latter on the value of the coin in the Philippines.

Again, it being fixed by the Department for a specific use and place, can be changed oftener than quarterly, if an emergency should arise requiring it, as it affects not the whole customs system of the United States, but simply the matter of dealings in the Philippines.

The Postmaster-General forwarded to the Secretary of War a letter from F. W. Vaille, director-general of posts in the Philippines, dated at Manila August 15, 1900, in which that officer states that he proposes to and has adopted the "Treasury Department rate" for his money-order department. This has not as yet been replied to by the Secretary of War, so no further comment can be made on it herein. The letter is as follows:

Department of Posts of the Philippine Islands,
Office of Director-General of Posts,
Manila, August 15, 1900.

Hon. C. Emory Smith,
Postmaster-General, Washington, D. C.

Sir: I inclose herewith the Manila papers containing references to agreement entered into between the military governor and the banks of Manila for the interchange of American and Mexican money at the rate of two for one, and an order from the military governor authorizing all departments of the government in the Philippines to accept American money at this rate.

I have explained to Lieutenant-Colonel Crowder, military secretary, and the major-general, MacArthur, that while I would be willing to accept Mexican money at this rate on postal accounts in exchange for stamps, I did not consider that it would be advisable for me to take any such action, inasmuch as it would not be possible to accept Mexican money in payment for money orders at that rate, and for the further reason that such action would probably result in such decrease in the amount of gold receipts that this department would not take in sufficient gold to pay expenses.

I explained that the money-order funds were simply handled by this department in trust to be transmitted to the States, and that if an order for $100, say, was issued on payment of 200 pesos, this department would be credited at San Francisco, for the 200 pesos, with but $95.20, and that undoubtedly I would be called upon to make up the deficiency.

As it would not be advisable to accept Mexican money in payment for stamps at the rate of two for one, and at the same time accept in the money-order department the rate fixed by the Secretary of the Treasury (which for the present quarter is $0.476), I have decided that the only course to pursue is to adhere to the rate fixed at the beginning of each quarter by the Secretary of the Treasury. Orders to this effect have been issued to all superintendents of this service.

Very respectfully, F. W. VAILLE,
Director-General of Posts.

This letter was duly acknowledged.

As early as November 30, 1898, Mr. Edward W. Harden, a special agent of the Treasury Department, appointed August 2, 1898, made a report to the Secretary of the Treasury reviewing his investigations on the financial and industrial conditions of the Philippine Islands. His report was printed by the Treasury Department as Document No. 2076, and on page 10 the following suggestions are made by Mr. Harden upon the subject of a "Filipino dollar," and, strange as it may appear, those suggestions are almost literally the same as have been made by several other persons since, an account of which appears in these pages. Mr. Harden's comments were as follows:

Notwithstanding the Americans have a force of 15,000 soldiers in Manila, who are paid in gold, the people of the islands will have nothing but silver. All of the soldiers, when they are paid in gold, take their money to one of the banks and exchange it for local currency. The native will take the Mexican dollar, worth less than 50 cents gold, in preference to the United States dollar, worth 100 cents. Any change in the coinage will require time for the natives to become accustomed to it before it will be accepted readily. If the United States retain the Philippine Islands a special coinage of silver dollars might be minted for circulation in the archipelago, the same as the British dollar has been put in circulation in the Straits Settlements, in Hongkong, and in other ports where British interests predominate. If this should be done it would probably be advisable to have the inscription in Spanish, as only a very small proportion of the inhabitants understand English, while practically all understand enough Spanish to enable them to decipher the inscription on a coin. In time the gold standard might be put in force in the islands, but in the opinion of the business men generally it would have to be accomplished slowly, and consideration would have to be given to the conservative attitude of the people and to the fact that they would have to be educated to the value of the new currency.

On October 25, 1900, Lt. Col. C. R. Edwards, chief of the division of customs and insular affairs, received from Mr. G. Bruce-Webster, agent of the Chartered Bank of India, Australia, and China, the following letter, suggested by an interview a short time previous, wherein Mr. Bruce-Webster expressed his views upon the question "of the currency of the Philippines," and by request of Colonel Edwards submitted the same in writing. The communication is as follows:

THE RALEIGH,
Washington, D. C., October 24, 1900.

DEAR COLONEL EDWARDS: On the subject of the currency of the Philippine Islands you asked me for a few notes.

You are aware that the Spanish Philippine gold coins have passed out of use during recent years, owing to their intrinsic value outgrowing that of the silver coins, as the commercial value of the latter declined in sympathy with the price of silver buillion. The coins chiefly met with now are:

(*a*) Spanish Filipino silver peso.
(*b*) Mexican dollar.
(*c*) Filipino silver half dollar (debased).
(*d*) Filipino silver peseta of 20/100 dollar (debased).
(*e*) Filipino silver half peseta of 10/100 dollar (debased).
(*f*) Filipino copper cuartos and centavos.

(*a*) This class of coin has been exported in some quantities for surreptitious introduction into Spain.

(*b*) The Mexican dollar passes freely in all commercial transactions and is practically the present standard of value.

(*c, d, e*) Spanish Filipino subsidiary silver coins, and although from 10 to 20 per cent debased, pass current freely as value for 50, 20, and 10 cents Mexican, respectively.

(*f*) The copper coins are to a large extent dilapidated pieces of metal, on many of which it is difficult to discern any image or superscription, and although intended to represent cuartos and centavos, a customer has in most cases to accept the ruling of the Chinese or Filipino small dealers as to which they really are. The following were the relative fixed values, viz: 20 cuartos = 1 real (or 12½ cents); 8 reals or 100 centavos = $1, peso, or duro.

Many foreign copper coins of neighboring countries are found in circulation, and the copper 1-cent coin of the United States is now largely used in Manila, and although a much smaller piece of metal, passes freely as 2 cents local money, supplying as it does a deficiency of small change.

The gold coins of the United States, the currency notes of the United States, and the United States silver dollar are all met with in the occupied places, and have generally passed current in the cities since the American occupation at the rate of two local dollars for one dollar of the United States. I am of opinion that while the American gold standard might not take long to be found suitable for trade purposes on a large scale in Manila, it would have a very disturbing effect generally throughout the islands, and be regarded as a hardship by the provincial and wage-earning classes until the conditions of trade alter, so as to permit the payment of an equal number of American dollars for the local dollars now earned. The change would be violent, and the conditions are not ripe for it. The establishment of the American gold standard as the only legal currency of the islands would doubtless facilitate the adjustment of Government departmental accounts between Manila and Washington, and afford American merchants an easy basis of calculation; but these points do not appear to me essential or so difficult to overcome as to warrant a disturbance of trade conditions in the islands.

The question of expediency is, I presume, not one that will materially influence the United States Government in making a premature change in the whole nature of the currency.

Assuming that a change from the present mixed currency is desirable, viewed from all points of interest, and that it should take a form as similar as possible to existing conditions, I am of opinion that the free coinage of silver at the Manila mint into a distinctly Philippine peso of the same intrinsic value as the Mexican dollar would least disturb trade conditions. The British dollar, coined at the Bombay mint from silver imported for that purpose and to the extent of all requirements, has fulfilled its purpose in keeping up a supply of currency for the colonies of the Straits Settlements and Hongkong, rendered necessary by the discontinuance of coining the Japanese silver yen and the growing scarcity of Mexican dollars. It is also finding its way into parts of China, filling the gaps caused by the disappearance of the yen and the scarcity of Mexican dollars. These coins are accepted by the Chinese for their known intrinsic value, knowing that only for its intrinsic worth is money a measure of values.

A Philippine peso of equal value would have the advantage of finding a market in China when its merits became known, and would be a medium of exchange for the adjustment of trade balances when a plethora of currency existed in the islands.

It appears to be considered desirable in official circles that the currency of the United States should be maintained at a high valuation measured in the local currency of the islands, and this could be maintained by the facilities afforded for free coinage of the local peso whenever any scarcity arose which tended to reduce the value of the American coin so measured.

Hitherto, the trade of the islands has shown an excess of exports over imports, which has been adjusted by the introduction of Mexican and coinage of Spanish Filipino currency. I surmise the balance of trade will for some time be in favor of the Philippines, though perhaps in the earlier stages, after a state of peace, the introduction of machinery, etc., will minimize this, but, assuming my inference will be realized, there will be less occasion for the export of the currency and a more probable need of the import of silver for coinage purposes. The latter process will be a more reliable source of adjustment than the existing uncertainty of promptly obtaining supplies of Mexican dollars.

Should it be decided to issue a coin of slightly less intrinsic value than the Mexican, the export of such coin would be less probable, its value as a commercial commodity being less, unless the Government adopt a fixed ratio between such coin and United States currency, a point upon the wisdom of which I do not feel called upon to express an opinion.

The conversion of the Japanese currency from a silver to a gold basis is worthy of consideration, and it might be feasible to issue Philippine gold peso coins of half the value of the United States gold coins, of five, ten, and twenty dollars. Such coin would, however, be even more liable to export for melting purposes than the Japanese yen, while the balance of trade is so much more in favor of the Philippines than is the case with Japan.

Assuming that an estimate of 35,000,000 pesos is sufficient for the trade of the Philippines now and insufficient for a largely increased trade in prospect, the question would arise whether the United States Government would be willing to see its gold withdrawn to supply the deficiency of gold pesos caused by export.

In conclusion, I would say that in my opinion—

(1) The present standard of value (the equivalent of the Mexican dollar) should be maintained by a silver peso, which would leave prices undisturbed.

(2) By adopting the American standard, values would require to be adjusted and instead of prices being nominally halved they would practically be doubled.

(3) The silver peso should bear the imprint of the Government's authority, and so carry with it a good political influence. "Render to Cæsar the things that are Cæsar's," etc.

(4) The proposition of such a coin appears to admit of the least opposition from trade interests in the Philippines and from political interests in the United States.

(5) As a charge of 1 per cent for mintage is made by the Bombay mint, it is conceivable that the mint at Manila would be to some fair extent self-supporting if a similar charge was made.

Much has been said and written against the action of the banks in Manila in converting the gold coin brought to it into local Philippine currency. It has not been understood, seemingly, that the legal tender in the islands has not been changed by the transfer of ownership, and that so far as the banks are concerned and others interested in large money transactions the United States, money can not legally be tendered by them in settlement of accounts, and must, therefore, be treated as bullion and be liable to fluctuating local prices as such. For this reason it is an error of sentiment to think that the local price of United States currency indicates or affects its popularity, measured in sentiment, but merely its utility, measured in the local standard of value, the peso. The banks have been accused of unduly depressing the price by those who have not apparently been familiar with the governing principles, and it has been said that this was done about the time and in anticipation of pay day. Those who may have entertained that view must have done so without due thought, and I may say that during my experience no instance of such a thing occurred in the Chartered Bank. It should be obvious also that as money takes time to circulate the greater portion remains in circulation and reaches the banks in an even flow in sympathy with the tide of circulation. These matters are, I know, fully understood by you and by other officials in high places here, but I think it not unadvisable to touch upon them as I have done.

Very respectfully,

G. Bruce-Webster.

P. S.—The present currency scheme in British India has not proved altogether a success (Rs. 15=£1), as, although it has kept exchange fairly steady, the gold has not been in demand as a circulating medium in the interior, and the circulation practically remains the silver rupee.

J. B.-W.

October 31, 1900, the following letter was written by the Acting Comptroller, the same being in reply to a reference by the Secretary of War to the Secretary of the Treasury of a communication from Lieut. Lawson M. Fuller, of Ordnance Department (found on page 43 of this paper):

Treasury Department,
Office of Comptroller of the Treasury,
Washington, October 31, 1900.

To the honorable the Secretary of War.

Sir: I have received by reference from you a letter dated July 23, 1900, addressed to the Chief of Ordnance, United States Army, by Lawrence M. Fuller, first lieutenant, disbursing officer, Division of the Philippines, wherein he asks authority to purchase in Hongkong, or wherever it may be obtained at best advantage, Mexican silver for the payment of native employees of the Ordnance Department and others with whom official dealings are had. You request an expression of my views on the proposition.

Lieutenant Fuller states that all transactions in the islands are in Mexican silver. The Army Regulations require that the money accounts of disbursing officers of the United States Army shall be rendered in terms of dollars and cents, and to secure uniformity in the preparation and rendition of accounts General Orders, No. 65, of

April 10, 1899, Adjutant-General's Office, were issued, one paragraph of which is as follows:

"The amount in United States currency having been arrived at, authority is hereby given for checks to be drawn therefor by disbursing officers to their own orders in United States currency and by them exchanged at local fiscal agencies of the United States where possible or at local banks for the necessary amount in the coin required to pay the creditor in the money originally agreed upon, and authority is hereby given for such exchange where the creditor declines to accept check payable in currency of the United States."

As I understand the correspondence, all that is desired is an extension of the authority given in the above paragraph which will permit the procurement at Hongkong, or wherever it may be obtained on better terms than at local fiscal agencies or local banks, of the necessary amount in coin required to pay creditors. If such be the case, and if the original authority was properly given, I can see no objection to the plan proposed, which appears to have for its object a saving of expense to the Government; but in view of the provisions of section 3651 of the Revised Statutes, I have grave doubts as to the legality of any exchange of funds. (See 16 Opinion Attorney-General, 381.) It is respectfully suggested that the question is one of general law and public policy rather than one affecting the settlement of accounts, since, whatever intermediate exchanges of funds may be made, the officers' accounts will be finally settled in the money of the United States, and that as such it would be proper for you to obtain an advisory opinion from the Attorney-General as to your authority in the premises.

Respectfully, L. P. Mitchell,

Acting Comptroller.

Section 3651 of the Revised Statutes referred to reads as follows:

Sec. 3651. No exchange of funds shall be made by any disbursing officer or agent of the Government, of any grade or denomination whatsoever, or connected with any branch of the public service, other than an exchange for gold, silver, United States notes, and national-bank notes; and every such disbursing officer, when the means for his disbursements are furnished to him in gold, silver, United States notes, or national-bank notes, shall make his payments in the money so furnished; or when they are furnished to him in drafts, shall cause those drafts to be presented at their place of payment, and properly paid according to law, and shall make his payments in the money so received for the drafts furnished, unless, in either case, he can exchange the means in his hands for gold and silver at par. And it shall be the duty of the head of the proper department immediately to suspend from duty any disbursing officer or agent who violates the provisions of this section, and forthwith to report the name of the officer or agent to the President, with the fact of the violation and all the circumstances accompanying the same and within the knowledge of the Secretary, to the end that such officer or agent may be properly removed from office or restored to his trust and the performance of his duties, as the President may deem just and proper.

The opinion of the Attorney-General, referred to as "16 Op. Atty. Gen., 381," reads as follows:

Department of Justice, *September 18, 1879.*

Sir: Yours of the 18th, received this morning, informs me that it is desirable, if the law will permit, that the Treasurer and assistant treasurers of the United States be authorized to exchange gold and silver coin for United States notes. It calls my attention to section 3651, Revised Statutes, and asks whether, in my opinion, that section or any other provision of law prohibits or restricts such exchange.

The section 3651 was originally a portion of the act of 1846, known as "the subtreasury act." It was reenacted in 1862, 1863, and 1864, with certain modifications rendered necessary by the adoption of United States notes as a part of the currency of the United States.

All of the section which need be considered is as follows:

"No exchange of funds shall be made by any disbursing officer or agent of the Government, of any grade or denomination whatsoever, or connected with any branch of the public service, other than an exchange for gold, silver, United States notes, and national-bank notes; and every such disbursing officer, when the means for his disbursements are furnished to him in gold, silver, United States notes, or national-bank notes, shall make his payments in the money so furnished; or, when they are furnished to him in drafts, shall cause those drafts to be presented at their place of payment and properly paid according to law, and shall make his payments in the money so received for the drafts furnished, unless, in either case, he can exchange the means in his hands for gold and silver at par."

The remainder of the section is punitive in its character, and need not be quoted.

The first of these clauses forbids any exchange of funds by disbursing officers or agents of the Government other than an exchange of them for gold, silver, United States notes, and national-bank notes, but gives no authority for the exchange of either of these moneys for the others. The second clause makes it the duty of every disbursing officer to pay, when the means for his disbursements are furnished to him in gold, silver, United States notes, or national-bank notes, in the moneys so furnished. It treats him not as a debtor to the United States, but as a bailor of the funds of the United States who is required to pay them out, and necessarily to keep them in the precise form in which he receives them. The third clause contemplates that under certain circumstances (as where drafts are furnished the disbursing officer) he may exchange the means in his hands for gold and silver at par; but no authority is given to make any other exchange.

In view of the fact that the second clause makes it the imperative duty of every disbursing officer to make payments in the moneys which he receives, and that no provision is found permitting him to exchange gold and silver for other moneys, I am of the opinion that the clause in question presents an obstacle to your wish to exchange gold and silver coin for United States notes through the depositories of the United States which can not be avoided under present legislation.

Very respectfully, your obedient servant,

CHAS. DEVENS.

Hon. JOHN SHERMAN,
Secretary of the Treasury.

In connection with the last matter and its references, attention is called to the following:

In the matter of "purchasing silver at Hongkong," see letters from the Secretary of the Treasury on pages 18 and 38.

In the matter of "General Order No. 65," see indorsement by Auditor for the War Department, page 29, and letter from the Secretary of the Treasury, page 30.

See also Comptrollers decisions, page XIX in front of book.

On November 4, 1900, the following letter and accompanying paper was received relating to this subject:

WASHINGTON, *November 3, 1900.*

SIR: We have the honor to transmit herewith memorandum, by A. M. Townsend, esq., of the Hongkong and Shanghai Bank, relative to the subject of currency and exchange in the Philippines.

Very respectfully,

HOPKINS & CO.

Lieut. Col. C. R. EDWARDS, U. S. V.,
Chief Division Insular and Custom Affairs, War Department.

[Memorandum for the Secretary of War. Currency and exchange in the Philippines, by A. M. Townsend, of the Hongkong and Shanghai Banking Corporation.]

NEW YORK, *October 31, 1900.*

The established currency in the Philippines for all mercantile and financial business when the United States took possession was the Mexican silver dollar. Silver being the currency of Hongkong, China, and the Straits Settlements, it is the natural currency of the Philippines, and is acceptable to the natives and foreign firms established there.

Since the American occupation a large amount of American gold dollars have been introduced into the islands, chiefly for army purposes, and I understand that the military authorities have recently suggested that the American gold dollar be adopted as the regular currency of the islands. I presume the considerations leading to this suggestion are desired for the simplification of Government accounts, desire to avoid complications of a fluctuating exchange, and an idea that recent rise in the value of the Mexican dollar (due to a corresponding rise in silver and possibly accentuated by a shortage in the local supply) was occasioned by a conspiracy among the bankers.

Regarding the above, I would say that banking operations are conducted on small margins. Anyone can test this by trying to do similar business on their own account. The Hongkong and Shanghai Bank has always endeavored to accommodate and facilitate the business of the United States officials, and its exchange charges are not arbitrary, but follow values. I do not think that the adoption of the United States gold dollar would do away with a fluctuating exchange or the influence of the condition of the local supply. The English sovereign fluctuates in value in America and Australia, according to the laws of demand and supply and according to the cost of transportation. The same would apply to the Philippines, and I do not think, for these reasons, that the parity of exchange could be maintained. I therefore do not believe that the adoption of the gold standard would accomplish the object sought. On the other hand, I believe it would be directly opposed to the native and commercial interests of the islands, which I understand are the chief concern of the United States Government. In support of this I would quote from Secretary Root's speech of the 24th of October, in which he mentions the following instructions as having been given to the present Philippine civil commissioners:

"In all forms of government and administrative provisions which they are authorized to prescribe the commission should bear in mind that the government that they are establishing is designed not for our satisfaction or for the expression of our theoretical views, but for the happiness, peace, and prosperity of the Philippine people, and the measures adopted should be made to conform to their customs, their habits, and even their prejudices to the fullest extent consistent with the accomplishment of the indispensable requisites of just and effective government."

Among Eastern nations Japan has recently adopted a gold standard, but it is to be noted that it is on the 50-cent basis, and the result of the change is not altogether satisfactory, the question of keeping up the supply of gold causing some anxiety. The halting attempt also in British India to establish a gold currency has not proved a success, silver continuing the money of the country. Mexico on the other hand shows increased prosperity and wealth and attributes the same to the advantages of the silver currency. The wealth of the country depends more on its products than on its cash balances, and the best method of any country paying its debts, either of commerce or those due on state account, is by its exports.

The chief object to be sought, therefore, is the improvement and development of trade, and this object, in my opinion, will be best attained by not disturbing the existing system of currency. I have no doubt but that the ideal currency of the whole world is gold, but that can only be looked for when the present supply of gold is very largely increased. To attempt to spread the use of gold over a larger territory than the supply justifies would lead to financial disturbances, distrust, and disaster.

It was only the increase in the supply of gold from the Transvaal and the Yukon that enabled the late increase in gold-using territory to be established.

In the above remarks I have endeavored to show that it is expedient and conducive to the commercial interests of the Philippines that the currency should continue on a silver basis. I will now refer to the method by which it might be so continued.

The Mexican dollar has been the coin chiefly used in the Philippines and in China. It weighs 415 to 418 grains and is 898 to 900 fine, and costs one-half of 1 per cent for coinage.

It was used because it was the cheapest available coin.

Of late years, owing to the increasing wealth of Mexico, the export of Mexican dollars having decreased and the supply for the Orient has been uncertain and insufficient, there was always the objection that the coins were badly and unevenly made. These considerations led to the introduction of the British dollar of the same professed weight and fineness as the Mexican, viz, 416 grains weight and 900 fine, coined at the Bombay mint, at a cost of 1 per cent. Although this coin is at a disadvantage as compared with the Mexican dollar by reason of its higher cost, yet, being obtainable as required and of reliable make, it has quickly made its way and is now the chief coin used in the Straits, Hongkong, and the south of China. Of late it has circulated also in the north of China.

This coin would be suitable also for use in the Philippines, as it would go alongside of the Mexican dollar at par, but, as the islands are under the American flag, it would seem more suitable that this Government should coin a special dollar of similar weight and fineness as the Mexican and British dollar, obtainable as required for currency in the Philippines. Such a coinage could, of course, in no wise affect the question of the gold standard in the United States, and would seem a legitimate way of supporting the silver industry of the country.

Many years ago an American trade dollar was coined with a view of supplying the Orient with American silver, but a mistake was made in making it weigh 420 grains, 1 per cent more than the Mexican dollar. It therefore costs 1 per cent more, besides its higher cost in coinage, whereas it would only pass in China at the same value as the Mexican dollar. It was, therefore, a failure, except for the melting pot. What remained of this coinage had to be redeemed by the United States at a considerable loss to the Government.

If it had been made to weigh 416 grains it would have replaced the Mexican dollar, made the coinage of the British dollar unnecessary, and by this time become the coin of the Orient.

This emphasizes a point that I would make, viz, that all currency matters are most important and require delicate handling, and it is, therefore, most desirable that no changes should be made in the Philippine currency without such changes being fully considered and approved by the Government at Washington.

Regarding the Government accounts, if a silver currency was continued I would suggest that they could be simplified to a large extent by having a rate of exchange fixed to cover such disbursements as the pay of officials and soldiers, and many other such matters that could be made the subject of special contract. The payee might be given the option of drawing the money either in gold dollars in America or in silver dollars, at the rate named, in the Philippines. But I do not suppose that such a plan would cover all Government transactions.

Pages 1 to 51, inclusive, of this paper were submitted to Gen. A. E. Bates, Paymaster-General United States Army, and he kindly contributed the following criticism and recommendations:

War Department, Paymaster-General's Office,
Washington, October 17, 1900.

To the honorable the Secretary of war.

Sir: The currency in the Philippines, which has been the subject of so much correspondence between the authorities in the islands and the War Department, is still a potent agency of disturbance, and it seems necessary to do something, if possible, to change the condition so as to enable us to transact our governmental business with that possession with more exactitude and less expense to the United States, and at the same time relieve the officers, soldiers, and employees of the Government from the losses they are now subjected to on account of the fluctuating value of the currency in use there.

Colonel Edwards, of the insular division of the War Department, has prepared a very careful résumé of the history of our business experience in that dependency since our occupation of the islands in 1898, including the correspondence on the subject, which is submitted herewith, giving a detailed account of the difficulties encountered, and the suggestions of officers and civilians for their removal. None of these suggestions have seemed to meet the exigencies of the occasion, and, after a careful review of the statements, I have the honor to submit the following for your consideration:

It is apparent that the difficulty is natural and one which must necessarily arise when a general government whose business is transacted on a stable gold basis extends its sovereignty to and attempts to transact business with a possession whose currency has no legal status and where the commercial business is transacted on the basis of the fluctuating value of the Mexican dollar. The conditions would be difficult if the Philippines were supplied with a legal silver currency, for in that case we would have to deal with the fluctuations of the world's value of silver; but in addition to the fluctuation in the value of the Mexican dollar, owing to the changes in value of silver, there arises another and greater fluctuation from the fact that there is a limited amount of this currency and the demand for it changes with the conditions in those countries where it is the means of exchange in all commercial transactions—that is to say, the Mexican dollar has an intrinsic value, varying with the price of silver in the great silver marts of the world, London and New York, and a commercial value governed by the law of supply and demand.

This is illustrated in our experience during the past two years in the Philippines, where at one time a United States gold dollar was worth $2.11 Mexican, and at another time the same dollar was worth but $1.96 Mexican, a fluctuation of 15 per cent, whereas the extreme limit of fluctuation in the value of silver would not have changed the value of the Mexican dollar more than $0.058. The result is confusion. When the Government contracts for the purchase of a commodity not delivered on the day of contract the price it must pay is uncertain, and when it pays its Army or its employees in United States currency, as it does, neither officer, soldier, nor workman knows what is the purchasing power of his money until he has converted it into "Mexicans."

There are two ways of overcoming this difficulty: First, the United States might make the currency of this country the legal currency of the archipelago, and require all business in which the Government is a party to be transacted on such basis; second, it might go into the market and buy as much Mexican money (dollars) as was necessary and use them. This latter is the method employed by private parties doing business in such a country. The objection to the first plan is that it would inaugurate at once an entire change in the methods of business, and by changing to a gold basis without time for preparation would throw the business of the islands into a state of the greatest confusion, cause great and unnecessary loss, with the consequent want and distress among the natives, thus creating a corresponding antagonism to the United States. The second plan is objectionable mainly on account of the great expense to the Government and the power it gives the banks to manipulate the price of Mexicans to their own advantage.

It would seem necessary therefore that we should adopt some measure which would alleviate the present situation and which at the same time would prepare the way for the final adoption of the currency of the United States as the legal currency of the islands. Various suggestions have been made by officers and bankers to remove the difficulty, and some of the suggestions are worthy of great consideration.

Major McClure suggests that the chief paymaster be furnished with half a million Mexican dollars, bought in the United States or in the cheapest market where they are to be had, which he should be authorized to exchange with the Army or Government employees for gold currency at the cost price of the dollar. This would act as a relief for the people as long as the purchase price of the Mexican was less than the local price in Manila; but should the United States Government make such a purchase and, having this amount of Mexican silver on hand in Manila, there should be such a depreciation of value in the Mexicans that they could be bought cheaper in the local market, neither officer, soldier, nor employee would buy his silver from the paymaster, but from the banks where he could obtain it more advantageously, and ultimately the Government would be obliged to dispose of it at the market rate, and sustain whatever loss might come from the transaction.

General Otis and the treasurer of the public funds (Major Kilbourne, U. S. A.) report that "an attempt to make the revenues (island revenues) payable in gold would result in financial disturbance, with widespread indignation and resistance, for the native would not comprehend any argument in its favor, but would look upon it as an additional tyrannical act of the United States." General Otis also objects to requiring the treasurer to convert his collections into their equivalent value in gold, and to keep his accounts in this manner, the present method being to receive and pay out all money on the basis of the Mexican dollar. He adds, "a change from this method of procedure would result in such grave consequences that unless future and positive instructions to make such a change are given by the War Department the course hitherto pursued will be continued for the present at least."

According to the testimony of the prominent merchants, bankers, and others, before the Philippine Commissioners in 1899, the consensus of opinion was that the currency of the islands would better remain silver on the basis of the Mexican dollar. I would invite the attention of the honorable Secretary, in this connection, to the fact that these gentlemen were all more or less expert in the value of currency, and in their dealings with the uneducated natives would have a greater advantage for profit than they would have if their dealings were based on a less fluctuating means of exchange, and the value of their evidence and opinions should be judged accordingly.

The consul at Manila, in answer to a letter addressed him by the honorable Secretary of State, suggests "that by making a gold dollar the equal of two Philippine dollars a steady rate of exchange would be accomplished." Of this it need only be said that the history of the attempt to use two metals at a ratio fixed by law in the United States has proved that he is mistaken, and the rate of exchange will always be fixed by the relative value of the metals and the state of trade.

It should be borne in mind that the difficulties in connection with the confused state of the currency in the Philippines arise in adjusting and auditing the accounts of the collecting and disbursing officers in the islands by the auditor in Washington, where all accounts are required to be stated in terms of United States currency. The insular government has no difficulty as long as they receive and pay out the money of the islands at its nominal value. There is no difficulty with the departments of the Army as long as, like the Pay Department, they confine their transactions exclusively to the United States currency. The trouble arises when it is necessary to use money for the purchase of supplies or the payment of native labor, and with the individuals who receive their pay in gold and are obliged to convert it into the currency of the country. The banks, taking advantage of their position, will not open accounts with customers on a gold basis, so that those who have received gold from the United States and wish to deposit it in a bank are obliged to accept a credit with the bank expressed in silver at the current rate of the day; and in turn, if they desire to draw gold from the bank, they are obliged to buy it back at the rate then current, thus making every depositor in a bank a speculator in the value of Mexicans to the extent of their deposit. In case the deposit is public money, such as a company fund or money belonging to a hospital, or any fund for which an officer may be responsible and which he has no convenience for guarding or safe-keeping, the officer becomes personally responsible for the loss, if such there be, while the money is lying in the bank for safe-keeping. Could a depositor, by depositing gold in the bank, be able to draw gold out again, he could control his losses and confine them to the amount he was obliged to use for current expenses, and whatever balance remained to him at any time he could withdraw in gold without loss.

The points brought to your attention and for which a remedy is asked of the War Department are: First, the establishment of a regular and invariable rate of exchange between United States currency and Philippine money or Mexican dollars, which will enable disbursing officers in the Philippines to exchange their gold for currency of the country and pay it out, stating their accounts in terms of United States currency without loss to themselves or the Government; second, to issue such orders or take such action as will enable the servants of the Government to exchange the gold they receive in pay for its full equivalent in the currency of the country.

In my judgment the first requirement can not be fulfilled. The rate of exchange will be fixed by local conditions and natural laws, which the Government must meet as a private individual would be obliged to do. At the present time a rate of exchange is fixed arbitrarily by the commanding general at the rate of 2 Mexican dollars for $1 in gold, but this is operative only by the consent of the banks and will not last should the scarcity of Mexican dollars become such that the banks can not afford to take them at the arbitrarily fixed value. Where Mexican dollars are necessary for the proper transaction of Government business they must be bought at the market rate and the loss charged to Government account. If, by a combination, the banks of Manila raise the price of Mexicans to such a point that it would be economy to do so, we should send to Hongkong or Shanghai and make the purchase there, if they can be obtained enough cheaper to pay for the expense.

All Government and insular accounts should be kept on a gold basis as prescribed in general order published by the War Department April 10, 1899.

Money received from customs taxes, postal revenues, etc., should be received as at present and the daily receipts converted into its equivalent in gold, and at some time in the future, the date of which should be announced a long time in advance, all payments to the island government should be in United States currency or its equivalent at the time of payment.

As soon as authority can be had from Congress the mint in Manila should be opened for the free coinage of silver and a Philippine currency coined on the basis of a Philippine dollar of the weight and fineness of a Mexican dollar, with a subsidiary coinage of half dollars, quarters, dimes, and 5-cent pieces, together with copper pieces of pennies and half pennies. This subsidiary coinage should be debased enough to prevent it from being melted or sent out of the country. Our own mints should also be permitted to coin similar dollars for export to the Orient—not legal tender. This Philippine currency should not be given a legal-tender value, but be allowed to circulate on its intrinsic value, and as such be receivable for customs taxes, etc., as Mexicans are at present. This would remove the possibility of a speculative corner in the currency of the islands, make the currency of the country uniform, gratify the pride of the natives, and tend to cultivate among them a national spirit and ultimately a feeling of gratitude toward this country.

In regard to the second difficulty, I am unable to see how the department can do anything to relieve what is undoubtedly often a hardship on the army employed there. The civil employees should be paid in Mexicans, which should be bought for the purpose until the new coinage can be obtained.

In an interview with a representative of the Chartered Bank of India, Australia, and China, I have been informed that they had made arrangements to open gold accounts with officers on account of public funds more than a year ago, and in fact had opened such an account with Major Devol on account of some quartermaster funds which he had in his possession. On this account the major made one deposit and in due time checked out the amount deposited and the account was closed. The objection the bank makes to opening such accounts with individuals and others is that they can not employ gold so deposited in their business, but are obliged to store and hold it until it is withdrawn by the parties depositing. Thus the bank is obliged to run a separate branch at considerable expense and trouble, from which they can derive no profit. After some conversation and explanation of the embarrassment to officers, especially of being obliged to retain in their personal possession the money necessary for their current expenses, he concluded that if the different departments in making purchases by contract would follow the example of the Subsistence Department and require the bids to be specified in terms of United States currency, that it might give them an opportunity to use the gold accumulating from the private deposits with their customers, the contractors, and justify them in opening such accounts. He promised to communicate at once with the directors in London and try to perfect the arrangement for this much-needed banking facility.

Whether this scheme succeeds or not, I think there is no doubt that the purchasing officers there will be relieved of some of their embarrassment, if they are directed to state in all their advertisements that payment will be made in United States currency or by drafts on the assistant treasurer in New York, or its equivalent in Mexican on the date of delivery. I am informed by this same gentleman, Mr. Bruce-Webster, that the system of free exchange on New York, introduced by the Paymaster-General in September, 1899, was a great relief to the banks, greatly facilitating their business transactions with this country. He expressed great surprise to learn that for the past three months, during his absence from Manila, all receipts from this source has ceased.

Very respectfully,

A. E. Bates,
Paymaster-General, U. S. A.

The Secretary of War.

Subsequently, the Secretary of the Treasury submitted to General Bates a letter from Mr. Conant presenting a plan for overcoming the difficulties herein referred to, and in reply General Bates wrote the following, and the same by his consent is here inserted as bearing directly upon the question under consideration:

War Department,
Paymaster-General's Office,
Washington, November 1, 1900.

My Dear Mr. Secretary: I return herewith the paper which you have so kindly permitted me to read, and in returning it I can not refrain from making a few remarks on its subject-matter and apropos of your suggestion, which is a modification of Mr. Conant's proposition.

The more I consider the subject the more doubtful it seems to me will be the success of an attempt to tie together silver and gold in the Philippines, even by fixing the elastic limit, as you propose, at 10 per cent. I find, by reference to the report furnished me by the Acting Director of the Mint, that the extreme fluctuation of the value of silver occurring between the dates of September 28, 1898, and October 5, 1900, has been .10506. Thus during this short period, if we had had established a coinage based, as you suggest, on 45 cents of silver to the dollar, redeemable in gold at the rate of two silver dollars to one gold dollar, we would have found at one time that our silver dollar would have been worth the half of 1 per cent more for silver than for redemption purposes, and our own experience in the United States would have been repeated in the Philippines if these conditions existed long enough, say one or two years, and if the price of silver still appreciated above the highest point so much the quicker would our new coinage disappear.

Whereas the Government could guard against the extreme fluctuation in the other direction and its evil influences by limiting the amount of silver coined, it would be entirely powerless to protect the circulation when silver appreciated above the market value at which we based our purchase.

It is quite probable that the appreciation in the value of silver will be met by an increased production on the part of our mines, nor would it be surprising if within a short time the amount of silver produced at present rates would again depreciate the price of silver as low and possibly lower than it has been within the last two years, so that this fluctuation would be going on constantly, as it is now, governed by the Government as to the limit of depreciation for a certain amount, and entirely beyond all limit of control above a certain point.

Therefore it seems to me that it will be better for the Government, and in the end better for the Philippines, to establish a convenient, well-divided currency for their use, making their dollar of the same weight and fineness as the Mexican dollar, and open a mint there to free and unlimited coinage of the metal. By doing this we shall confine the fluctuation in the Philippine currency strictly to the fluctuation in the value of silver, removing the fluctuation caused by the limited quantity of the circulating medium.

If this should be done and all the Government contracts, all Government business, be done on the gold basis, taking this Philippine currency for its actual value in gold at the time received, it seems to me we shall be educating the people in the value of using a gold standard as fast or faster than if we give them an artificial and forced gold standard. As we shall undoubtedly be obliged to send large amounts of American currency into that country, they will very soon become familiar with our standard, and, in fact, I was told by Mr. Bruce-Webster, who represented the "Chartered Bank of India, Australia, and China" there for three years, that the business men among the Filipinos are now quite as familiar with the value of different currencies as the business men among us, and this knowledge would soon spread to the more common people.

At any rate, I can not see how it is possible to make the proposed scheme for fixing a parity between gold and silver practicable.

Again thanking you for your courtesy in letting me see this paper, I remain,

Very sincerely, yours,

A. E. Bates,
Paymaster-General, U. S. Army.

Hon. Lyman Gage,
Secretary of the Treasury.

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After the foregoing had been printed the following was received and as it bears directly on the subject-matter of this inquiry it is here inserted:

HENRY W. PEABODY & CO.,
70 Kilby street,
Boston.

Agents for—
Smith, Bell & Co.,
Manila, Cebu, and Iloilo.

NOVEMBER 20, 1900.

Hon. ELIHU ROOT, Secretary of War, Washington, D. C.

DEAR SIR: I learn from the newspapers and other sources that the War Department is considering the expediency or desirability of adjusting the currency of the Philippines to the gold standard, and to bring the current Mexican dollars into a definite relation with gold.

We have a difficult and dangerous problem if we undertake to receive Mexican dollars as equivalent to half dollars of United States money, whether gold, paper, or our lighter weight silver dollars.

Just now, on account of the advance in price of bullion to about 30 pence per ounce, these silver units are worth more than half a gold dollar, and they would not be tendered to us, but after the special demand for coinage of rupees for India is satisfied, the price of silver will prevail at less than 29 pence, and we should receive the dollars by millions.

I do not see how the Mexican dollars can be received and paid out by law as worth half a United States dollar, without paying out gold in United States money at double the value of the Mexican dollars, when the price of silver rendered gold preferable.

Recoining Mexican dollars into new token Philippine dollars or pesos, of the same value as before and exchangeable for gold at double their face value, would amount to the same as exchanging gold for Mexican dollars and the latter, being the product of a free coinage country, would give much the same effect as to undertake free coinage of silver 32 to 1.

There have been coined in Mexico three and one-third billions of dollars and the stock or supply may be considered limitless. If the Government should buy silver bullion and coin token dollars or pesos of same weight as the Mexican dollars, or of lighter weight, and establish exchangeability of the new coins at half our United States dollars, their parity might be maintained so long as the volume is known and controlled by the Government.

The danger is in attempting to fix a value for the ever fluctuating Mexican silver dollar.

I have before me a memorandum of the rates of exchange on London on January 1, 1875, four shillings and one-half pence to the Mexican dollar, and on January 1, 1900, two shillings and five-eighths pence. The rate of exchange is taken into account in conversion of produce value in silver to sterling or gold, and business easily adjusts to the unavoidable fluctuations day by day.

Our soldiers may want silver coins of fixed value, but viewed commercially, I think we had better leave the currency as we found it, on the silver basis, the Mexican dollar unit, which is interchangeable with China traffic.

The disappointing experiences of the United States trade dollar of 1873 showed that it is not easy to change the money of centuries in the Orient.

Japan suffered the depreciation of all her values according to the decline in silver, until when silver was about as now, dearer than 32 to 1, she resumed the gold standard by reduction of her gold coins one-half and redeeming her own yens in gold, then recoining them into auxiliary money not redeemable, leaving the Mexican money to fluctuate with the silver yens equally with the gold.

There is great danger of counterfeits in the circulation of United States dollars at 16 to 1, and to introduce a token coin of 420 grains or less, worth half as much as the standard dollars, would be confusing even to a civilized man, not to say uncivilized tribes, yet they would soon learn that the token pesos were on gold basis and preferable to the Mexican silver dollar, and the standard dollars would return to this country.

This might serve for all purposes of our army without disturbing the existing currency for commercial transactions. May not the practice of Japan afford our best guide for our new system in the Philippines?

Even with the same money in use in the Philippines as in our country, there would always be an exchange in remitting or converting values; the introduction of a new token coin or unit of 50 cents of United States money might gradually be adopted in the islands trade.

Respectfully yours,

HENRY W. PEABODY.